

1 PLACE: Dobbs Building, Raleigh, North Carolina
2 DATE: Monday, March 11, 2024
3 TIME: 1:03 p.m. - 2:59 p.m.
4 DOCKET: W-100, Sub 67
5 BEFORE: Commissioner Karen M. Kemerait, Presiding
6 Chair Charlotte A. Mitchell
7 Commissioner Kimberly W. Duffley
8 Commissioner Jeffrey A. Hughes
9 Commissioner Floyd B. McKissick, Jr.
10 Commissioner William M. Brawley
11 Commissioner Tommy Tucker
12
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14 IN THE MATTER OF:

15 Investigation Regarding Consolidation
16 of Water and Wastewater Utilities and
17 the Utilization of Uniform Rates.

18 VOLUME 1
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NORTH CAROLINA UTILITIES COMMISSION

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NORTH CAROLINA UTILITIES COMMISSION

1 PRESENTERS:

2 FOR CAROLINA WATER SERVICE, INC. OF NORTH CAROLINA:

3 Matthew Schellinger, Regional Director of Financial
4 Planning and Analysis

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6 FOR AQUA NORTH CAROLINA, INC:

7 Ruffin Poole, Director of Business Development

8 Kimberly Joyce, Vice President, Regulatory, Government
9 and External Affairs

10
11 FOR RED BIRD UTILITY OPERATING COMPANY, LLC:

12 Aaron Silas, Director, Regulatory Operations at Central
13 States Water Resources, Inc.

14
15 FOR THE USING AND CONSUMING PUBLIC:

16 Chuck Junis, Director, Public Staff - Water, Sewer, and
17 Telephone

P R O C E E D I N G S

COMMISSIONER KEMERAIT: Good afternoon.

Let's go on the record, please. I am Commissioner Karen M. Kemeraut of the North Carolina Utilities Commission, and presiding Commissioner today. With me are Chair Charlotte A. Mitchell; Commissioners Kimberly W. Duffley, Jeffrey A. Hughes, Floyd B. McKissick, Jr., William M. Brawley, and Tommy Tucker.

This Technical Conference is being held in Docket Number W-100, Sub 67, which is entitled In The Matter of Investigation Regarding Consolidation of Water and Wastewater Utilities and the Utilization of Uniform Rates.

In compliance with the State Ethics Act, I remind all members of the Commission of our duty to avoid conflicts of interest and inquire at this time as to whether any member has any known conflict of interest with respect to the matter before us this afternoon.

(No response.)

COMMISSIONER KEMERAIT: Please let the record reflect that no such conflicts were identified.

On September 18, 2023, the Commission issued an Order Scheduling Technical Conference, which was

NORTH CAROLINA UTILITIES COMMISSION

1 later rescheduled to December 6, 2023. The purpose of
2 the initial Technical Conference was to receive
3 information from the water and wastewater utilities as
4 well as from the Public Staff to assist the Commission
5 in its consideration of matters related to the
6 consolidation of small systems and the use of uniform
7 rates.

8 In the Order, the Commission made the Public
9 Staff, Aqua North Carolina, Inc., that I'll refer to
10 going forward as Aqua, and Carolina's Water Service,
11 Inc. of North Carolina, that I'll refer to as CWSNC or
12 Carolina Water, as parties to this proceeding.

13 On December 4, 2023, the Commission granted
14 Red Bird Operating Company LLC's, that I'll talk --
15 refer to as Red Bird going forward, Petition to
16 Intervene in this proceeding. At the December 6,
17 2023, Technical Conference, the Public Staff, Aqua,
18 and CWSNC presented information, including, but not
19 limited to, whether the uniform rate paradigm
20 continues to serve the public interest in North
21 Carolina and whether the path to uniformity should
22 change in light of the challenges faced by the water
23 and wastewater utilities in North Carolina. Red Bird
24 attended the Technical Conference, but did not make a

1 presentation.

2 Based upon the information presented at the
3 Technical Conference, the Commission determined that
4 further discussion was warranted both separately, by
5 the parties at stakeholder meetings, and in the form
6 of continuing updates to the Commission. Therefore,
7 on December 21, 2023, the Commission issued an Order
8 Establishing Quarterly Technical Conferences and
9 scheduling the first quarterly conference for this
10 date, and this time in Raleigh, North Carolina.

11 The December 2023 Order, directed the Public
12 Staff, Aqua, and CWSNC to participate in the Technical
13 Conference and present information on various issues
14 related to uniform rates for water and wastewater
15 systems, the stakeholder meetings that have been held
16 since the initial Technical Conference, any consensus
17 items that have been reached, and the remaining issues
18 of disagreements between the parties. The Order
19 provided that Red Bird may participate, if desired.

20 On March 5, 2024, the Public Staff, Aqua,
21 CWSNC, and Red Bird filed their respective
22 presentations, including a list of presenters.

23 That brings us to today. We will first hear
24 from any spokesperson for the stakeholder meetings to

1 update the Commission on the meetings. We will then
2 hear from CWSNC first, and then the Commission will
3 then call upon the parties in the following order:
4 Aqua, Red Bird, and the Public Staff. The parties
5 will be allowed approximately 20 minutes each to make
6 a presentation. After each presentation, the parties
7 will be allowed the opportunity to -- the Commission
8 will have the opportunity to ask questions of the
9 parties if there are any.

10 The Technical Conference this afternoon is
11 being transcribed, and the transcript will be filed in
12 the docket as soon as it is available.

13 So before we begin, I would like for the
14 parties to identify themselves for the record,
15 beginning with CWSNC.

16 MS. SANFORD: Jo Anne Sanford, with the
17 Sanford Law Office, representing Carolina Water
18 Service, Inc., of North Carolina, and with me at
19 counsel table is Matt Schellinger.

20 COMMISSIONER KEMERAIT: Good afternoon.

21 MS. JAGANNATHAN: Good afternoon,
22 Commissioners. Molly Jagannathan, with the Law Firm
23 of Troutman Pepper Hamilton Sanders, here on behalf of
24 Red Bird, and with me is Aaron Silas on the witness

1 stand.

2 COMMISSIONER KEMERAIT: Good afternoon.

3 MR. DROOZ: David Drooz, with Fox
4 Rothschild, appearing on behalf of Aqua North
5 Carolina, and making a presentation in here today are
6 Ruffin Poole with Aqua and Kim Joyce with the parent
7 Company, Essential Utilities.

8 COMMISSIONER KEMERAIT: Good afternoon.

9 MS. JOST: Good afternoon. Megan Jost, with
10 the Public Staff representing the Using and Consuming
11 Public. With me at counsel table is Reita Coxton, and
12 our presenter is Charles M. Junis.

13 COMMISSIONER KEMERAIT: Good afternoon. And
14 before we begin, are there any preliminary matters
15 that we need to discuss?

16 MS. SANFORD: There is one more thing that I
17 would like to say for the record. State President of
18 Carolina Water Service, Don Denton, who is known to
19 all of you, and he would very much like to be here
20 today, particularly in preference to what he is doing
21 today, which is recovering from back surgery which he
22 had on Friday. So he regrets not being able to be
23 here, but he and Mr. Schellinger have worked very
24 closely on the Company's position, and we'll be sure

1 that it's expressed on his behalf today.

2 COMMISSIONER KEMERAIT: Thank you for the
3 update about Mr. Denton.

4 Any additional preliminary matters?

5 (No response.)

6 COMMISSIONER KEMERAIT: With that, we will
7 go ahead and begin the Technical Conference. Before
8 the parties provide their presentations, are we going
9 to hear from any spokespersons about the stakeholder
10 process?

11 MS. JOST: Mr. Junis and Mr. Silas are going
12 to talk about the stakeholder meetings.

13 COMMISSIONER KEMERAIT: Please begin.

14 MR. JUNIS: So, Presiding Commissioner
15 Kemeraut, I just want to note the parties have
16 discussed the Order here that we would present, and so
17 Mr. Silas and I would be presenting on behalf of the
18 stakeholders, and then we are anticipating having Red
19 Bird, Carolina Water, Aqua, and then the Public Staff
20 if that would so please the Commission.

21 I don't think we were aware of whether there
22 was an expected Order or not, but that's what we had
23 sort of discussed amongst ourselves.

24 COMMISSIONER KEMERAIT: So, Mr. Junis, that

1 Order will be fine. We'll hear from the two of you
2 about the stakeholder meetings, and then we'll hear
3 from Red Bird, Carolina Water, Aqua, and then the
4 Public Staff.

5 MR. JUNIS: Thank you very much.

6 So just to hit on, you know, we're not going
7 to go through everything in our slides; I think it's
8 available to read, but just wanted to emphasize how
9 serious the stakeholders took this Technical
10 Conference and the meetings amongst the parties. So
11 we did meet on three occasions, February 6th, February
12 14th, and the 22nd. And attendees included Shannon
13 Becker, Kim Joyce, and Ruffin Poole, and Charlie
14 Baldwin, from Aqua; and Donald Denton, Matthew
15 Schellinger from Carolina Water; and Aaron Silas from
16 Red Bird; and then Gina Holt, Megan Jost, and myself,
17 Charles Junis, on behalf of the Public Staff.

18 So a great group of minds really tried to
19 find a consensus here. I'll just give a brief
20 overview. We didn't do a great job of finding a
21 consensus. You know, there were certainly
22 commonalities amongst the group at points, but I
23 think, just to give a general overview, the Public
24 Staff really values the case-by-case analysis and sort

1 of a little more nuance than a simple yes or no answer
2 to some of these prompts. And so now Mr. Silas, I
3 think, is going to run us through the Commission's
4 prompts.

5 MR. SILAS: Yeah. And I'll do it pretty
6 quickly. Like Chuck said, there was not a whole lot
7 of consensus. So I'll talk about, you know, the fact
8 that a lot of the companies and Public Staff are going
9 to dive deeper on some of these topics in their -- in
10 their personal presentations.

11 Topic 1 was whether water or wastewater
12 systems should be grouped based on similar cost of
13 service or other similar characteristics. The
14 companies in the stakeholder meetings kind of talked
15 and said that the preference is for a truly uniform
16 rate with a single revenue requirement for water and
17 then a single revenue requirement for sewer. While
18 Public Staff, I believe, kind of sees it as a little
19 more nuance. A whole lot more has to go into that.
20 So I'm sure you'll hear the specifics from them during
21 their presentation.

22 Topic 2 was whether a transfer system can be
23 incorporated into an existing multi-year rate plan to
24 avoid increasing the number of standalone rate

1 entities. Red Bird obviously is not super informed
2 about those multi-year rate plans, because we haven't
3 done a rate case yet, but Aqua and Carolina Water
4 says, "Yes," and Public Staff said, "No." On this one
5 after those discussions.

6 Topic 3, I think is -- is where we kind of
7 got the most consensus. This is how the Commission
8 should address the affordability issue of low-income
9 customers when migrating to uniform rates. All
10 stakeholders agree that the future of LIHWAP funding
11 really impacts this response, and what you'll hear in
12 our individual presentations is a lot of different
13 ideas that came out of these stakeholder meetings on
14 how to address affordability.

15 So obviously, we all agree that it is an
16 important issue, and we all kind of have different,
17 unique perspectives. Could be a combination of a
18 couple of ideas or one. But, yeah. That was a really
19 good discussion between all parties there.

20 MR. JUNIS: And I'll just add that, you
21 know, I think it's sort of the brainstorming phase of
22 trying to address affordability that we appreciate the
23 prompts but forth by the Commission and, you know, the
24 complexity of trying to operate within the current

1 statutes or whether there -- it would warrant some
2 sort of change or even a modification to the
3 Commission's rule. So I think there's some thought --
4 initial thought put to this, but I think there's more
5 to come.

6 MR. SILAS: Topic 4, was whether acquired
7 systems that have a cost of service less than the
8 uniform rate cost of service should be included in
9 uniform rates. Company says -- Companies say, "Yes,"
10 and the Public Staff says, "No," and an additional
11 topic was, you know, I think was directed specifically
12 to Public Staff about what circumstances, if any,
13 would lend itself to that. I don't know if you want
14 to chat now, or during yours.

15 MR. JUNIS: Yeah. We can just briefly --
16 And we have ran into instances where, for example, an
17 emergency operator acquires a system, and then we're
18 trying to deal with the true-up process, and there's a
19 potential deficit. How to handle that. Whether it
20 should go into rate base. So there are instances that
21 kind of shift that timing to determine some of these
22 aspects of ratemaking.

23 The other point to make is, that we read
24 this very to the point in that it refers to a

1 transfer, and so we were not trying to answer this
2 question in the context of acquisitions. For example,
3 like a CPCN proceeding. So just to keep that in mind.
4 I don't know what the Commission had in mind when they
5 were asking this question, but we took it from a very
6 literal interpretation of transfers only.

7 MR. SILAS: For Topic 5, it is if the
8 Commission considers it appropriate ongoing policy,
9 the determination of whether uniform rates are
10 appropriate at the time of transfer will be made on a
11 case-by-case basis, regardless of whether the cost of
12 service for the standalone systems supports such
13 approval. There was a bit of consensus here, so the
14 companies and Public Staff both say, "Yes," with a
15 little nuance that you'll likely hear in the
16 individual presentations, but there was consensus on
17 Topic 55 here.

18 Topic 6, what mechanisms would facilitate
19 efficient transfer of small water and wastewater
20 systems to the larger utilities? Again, this, you
21 know, was more of a brainstorming session than whether
22 or not there's consensus. I think that, you know,
23 there was some really good conversations about,
24 potentially, faster acquisition cases or transfers for

1 troubled systems or -- there was a lot of kind of
2 brainstorming in this one as well. I don't know,
3 Chuck, if you anything to add there, but not
4 necessarily consensus, I wouldn't say.

5 MR. JUNIS: No. I think there is a
6 recognition that, you know, this Commission regulates
7 over 80 water and sewer utilities, a few being quite
8 large, and then many that may or may not fall in the
9 definition of small. I think it depends on how you
10 define small. I think it also depends on how you
11 define larger utilities. So, I mean, I think there's
12 challenges just on the front-end, how do you define
13 these terms, and then what does that mean? Are there
14 incentives? Are there waivers? And those are some of
15 the ideas put forth by the companies.

16 MR. SILAS: And then last topic is Topic 7.
17 Should the rate base of the acquired systems be
18 established in the transfer proceeding rather than
19 having the rate base determination deferred to a
20 future rate case. Companies and Public Staff, besides
21 Red Bird, were in agreement that the rate base should
22 be determined during the transfer proceeding and then
23 Red Bird dissented from that opinion about deferral to
24 a future rate case.

1 And that's really all the topics. I didn't
2 know if you guys would have any questions for us about
3 these stakeholder meetings, but that's really kind of
4 the -- the overview.

5 COMMISSIONER KEMERAIT: Well, I just like to
6 say that we appreciate the effort and the time that
7 the Companies and the Public Staff put into the
8 stakeholder meetings because these are important
9 topics for going forward and issues that we're
10 addressing currently. So we appreciate that.

11 I know that we're going to be delving pretty
12 deeply into all these topics for the -- during the
13 different presentations, so I won't ask any questions
14 about that. I will say that I was encouraged about
15 the brainstorming efforts, especially about
16 affordability and then ways that there could be
17 mechanisms to better incentivize, or streamline, the
18 process for acquisition of the small troubled systems,
19 and we are anticipating having an additional Technical
20 Conference for information and so I would encourage
21 all of the parties to continue with that brainstorming
22 so we may be able to some more consensus or ideas
23 going forward.

24 So I have no questions, because I'm going to

1 be waiting for the presentations, but I'll check with
2 my fellow Commissioners to see if they do.

3 Commissioner Brawley.

4 COMMISSIONER BRAWLEY: Yes, ma'am.

5 Did you two gentlemen write this document?

6 MR. SILAS: It was a consensus based on the
7 conversations we had, but, yeah, Chuck and I kind of
8 took the lead in putting it into a PowerPoint
9 presentation.

10 COMMISSIONER BRAWLEY: After you did this,
11 was this circulated and approved?

12 MR. SILAS: It was. It was circulated a
13 couple times, I think, yes, sir.

14 COMMISSIONER BRAWLEY: Okay. Thank you.

15 COMMISSIONER KEMERAIT: Commissioner Tucker.

16 COMMISSIONER TUCKER: Thank you, madam.

17 If I ask some questions that'll be pertinent
18 to the presentations by the water Companies, you can
19 stop me there, and I'm just going to ask Chuck a
20 couple things having reviewed what they put in their
21 report.

22 First of all, uniformity and certainty is
23 better for business, and, Chuck, you're a PE, so you
24 get down in the weeds and you look at all the

1 technical pieces of that kind of process, but for a
2 business, it's better to have a blanket certainty.
3 And my concern is, we, as Commissioner Kemeraït said,
4 we have troubled systems that come to us for
5 acquisitions and the process to take them over from
6 where I sit in just two or three months is not very
7 streamline. What -- what do you see as far as being
8 able to improve that process?

9 COMMISSIONER KEMERAÏT: Mr. Junis, if
10 that -- if that is -- I believe that's in your
11 presentation; is that correct?

12 COMMISSIONER TUCKER: It is.

13 COMMISSIONER KEMERAÏT: If so, I think that
14 I would ask that you hold your answer, but be certain
15 to specifically respond to it during your
16 presentation.

17 COMMISSIONER TUCKER: Perhaps I'll just
18 wait. Thank you.

19 MR. JUNIS: I got it the -- I got that
20 question noted, and we'll be ready to address that
21 during our time. Thank you.

22 COMMISSIONER KEMERAÏT: Thank you to both of
23 you for the over view, and now we'll turn to Red Bird
24 for your presentation.

1 MS. JAGANNATHAN: Thank you, Presiding
2 Commissioner Kemeraut. If it would be helpful, does
3 the Commission have paper copies of the presentations?
4 I'll refrain from passing those out. Before Mr. Silas
5 dives into his presentation, I just wanted to briefly
6 address Question 7, which is the rate base question.
7 And, again, I know you-all aren't interested in
8 hearing legal arguments or oral arguments, but just
9 wanted to kind of provide high-level context because
10 in the stakeholder group, it appears that Red Bird is
11 an outlier, so I just wanted to give a little bit of
12 context for that. And I think the other utilities may
13 have a little more nuanced view of that and I'm
14 interested in hearing that as well. But as we were
15 just talking about, I think everyone agrees that the
16 public interest is served when these smaller troubled
17 systems get transferred to larger utilities that have
18 the financial capacity to make long overdue, much
19 needed, improvements.

20 So I think sometimes what gets lost in the
21 shuffle in these transfer proceedings is that the
22 buyer of the system is pretty much at mercy of the
23 seller in terms of the information about rate base.
24 And I think, generally, the smaller more troubled the

1 system is, the worse the information they have from an
2 accounting perspective in terms of missing
3 documentation, incomplete or inaccurate accounting and
4 record keeping.

5 So I think that's just a little more context
6 about, you know, once the seller actually acquires and
7 owns and operates the system, they tend to get better
8 information about what the assets actually are and
9 would be better positioned to present evidence on rate
10 base in a rate case and that seems like the best forum
11 for the Commission to set just and reasonable rates
12 that are fair to both the utility and the customers.
13 So with that, I'll turn two over to Mr. --

14 COMMISSIONER KEMERAIT: Thank you. To level
15 set before we begin, I appreciate that, and this is
16 for the parties I think everyone understands and also
17 for the Commission, that some of these issues do have
18 some overlap with pending dockets and Application
19 before the Commission and so to be very clear, we will
20 not be talking about any pending dockets or
21 Applications we're talking. And none of the questions
22 that be coming to will be about any specific dockets
23 or Application. So we'll be talking about these
24 issues more at a high-level policy perspective, but

1 thank you for that perspective.

2 MS. JAGANNATHAN: Absolutely. Thank you.
3 Understood.

4 MR. SILAS: I wanted to start by thanking
5 you guys for the opportunity to speak in front of you
6 guys today. I think that workshops like this are
7 really exciting and interesting to me, so thank you
8 for taking the time to care about issues like this.
9 It's nice to see, and it's something that I've seen in
10 some of the other states that CSWR affiliates operate
11 in. So I really appreciate that.

12 I wanted to start at a really high level and
13 just kind of explain who we are for those who might
14 not be super aware. So my name is Aaron Silas, I'm
15 the Director of Regulatory Operations at CSWR, which
16 is the parent company of Red Bird, who is the North
17 Carolina affiliate.

18 We have a couple systems in your state with
19 some more pending, which I will not go into, but I
20 wanted to just kind of introduce myself first.
21 Obviously, Red Bird did not present at the last
22 workshop, so my first couple slides are just kind a
23 brief introduction to our perspective into some of the
24 questions that came up in the last workshop, and then

1 I delve into the topics that you guys specifically
2 wanted answers to.

3 So the first thing, do uniform rates serve
4 the public interest? Red Bird believes, yes. I
5 actually just gave a presentation at NARUC a couple
6 weeks ago about single-tariff pricing and how that's
7 really helped us with the affordability in some of our
8 other states. So that's a lot of what my presentation
9 is about.

10 Obviously, in North Carolina, Red Bird has
11 not gone through a rate case. We have no multi-year
12 rate plans that are currently ongoing. So a lot of
13 what I am going to talk about today is just my
14 experience in other states in the hope of, you know,
15 maybe inspiring some thought or creativity in some of
16 the mechanisms that you guys can utilize here in North
17 Carolina.

18 So, you know, Red Bird believes that
19 single-tariff pricing and rate consolidation provides
20 overall equity among rate payers, although it may
21 appear that one system may be subsidizing another at
22 the beginning, Red Bird believes that over the
23 lifespan of two separate systems, they would have an
24 equal amount of investment. One of the things that

1 made it clearer to me is, you know, we have a five
2 connection system -- wastewater system, and a 500
3 connection wastewater system. Even if that five
4 connection wastewater system requires more upfront
5 investment to meet standards or to process the waste
6 correctly, this larger system, with its collection
7 lines that are eventually going to need
8 repair/replacement that has more investment, and the
9 consolidation looping in that five connection system
10 is going to help them even slightly in the long term
11 whenever it comes to some of those longer term
12 investments.

13 So here on slide two: Mechanisms to Create
14 Change is the header here. I just kind of talk about
15 the fact that you guys are not the only Commission
16 that, you know, CSWR affiliates are regulated by that
17 has asked questions like this and are having ongoing
18 conversations about. The two that come to mind most
19 clearly are Arizona and Texas for me, and I have just
20 have some brief blurbs there. I can provide more
21 information later if needed. But, yeah, Arizona and
22 Texas are really looking into consolidation right now,
23 and looking at the positive benefits, and really
24 looking at how to get smaller utilities out of the

1 industry.

2 The developers who never wanted to be in the
3 industry. The son who inherited it from his father.
4 The daughter who inherited it from her grandfather.
5 The people that don't want to be in the business. it's
6 looking at ways to allow them to gracefully exit,
7 right? And sell to some of the larger utilities.

8 And then this is really -- the next slide is
9 just an example of system condition acquisition. This
10 is -- I wanted to get us all on the same page, right?
11 This is what we're talking about. This is the kind of
12 issue that needs to be resolved and single tariff
13 pricing and uniform rates really help incentivize
14 companies to come in and take over these systems that
15 are really poorly run. They need a lot of capital
16 investment. They need a lot of, you know, care
17 when -- when running and rehabilitating. So I just
18 wanted to kind of show that as an example.

19 And this gets into the specific topics that
20 we're talking about today. So the first slide that
21 I -- that I kind of wanted to talk about is titled:
22 Grouping Based on Similar Cost of Service or similar
23 characteristics. I believe that the benefits in
24 consolidation occur when there is one single revenue

1 requirement for water and one for sewer. I think that
2 that puts an odd kind of vision in some people's
3 heads, but where I've seen the true creativity and the
4 true magic happen is in the rate design after that,
5 right? So, although, in a lot of these affiliated
6 states where Red Bird has completed rate cases, there
7 is one single revenue requirement. This table off to
8 the side is an example of some of the creative things
9 we've done to -- to then split the cost based on
10 characteristics, right?

11 So this is an example from Missouri. We
12 just finished a rate case in Missouri in December, and
13 we implemented a district system, where, based on the
14 type much treatment at the facility, you were placed
15 into a lower cost district versus a higher cost
16 district, right? So you'll see that some of the more
17 simple treatment methodologies facultative lagoon, an
18 aerated lagoon are in District 1, which is the lower
19 cost. And then some of the more complex treatment was
20 placed in District 2, which is the higher cost.

21 So things like, extended aeration,
22 recirculating media filters, those were placed in
23 district two. That's just one example. We actually
24 have examples from a lot of the states that we operate

1 in. In Mississippi and Louisiana, we do something
2 very similar except they're called tiers. So Tier 1
3 is the lowest cost, which is really just facultative
4 lagoons. Tier 2 is kind of the -- what I'll call the
5 average residential, so it includes things like
6 aerated lagoons and some of the more complex
7 treatments you see listed here as well.

8 And then the third is, purchase treatment.
9 So what I like to call pass through, right? So if --
10 as an example, if Red Bird purchases Lake Royale,
11 right? We purchase water treatment there. That would
12 be a Tier 3, because we're not actually doing the
13 treatment, we're passing that through to the
14 customers. So that is the lowest cost because a lot
15 of it is just really just the pass through from the
16 supplier, right?

17 So long story short there, single revenue
18 requirement, but that doesn't mean that we can't do
19 some of the things that we've talked about before in
20 the rate design, right?

21 That brings me to the next topic, which is
22 affordability during that migration. Obviously, we
23 don't have -- we haven't been through a rate case in
24 North Carolina, but in some of our other affiliates,

1 we have, what I'll call regulatory assets that allow
2 us to phase in rates. And that's what I've seen, you
3 know, be the most effective in some of the states
4 we've been in for a little bit long.

5 Rate shock is really what we try to avoid
6 most often. A lot of the times these systems that we
7 acquire haven't had a rate increase in decades, and
8 they're going from \$15 a month to \$40 a month. That's
9 a Mississippi example. So what we've done in
10 Mississippi is set up these regulatory assets that
11 allow customers to kind of glide into that final rate,
12 right?

13 So at closing, we adopt the cost, the rates,
14 from the selling utility. In year one, we bump them
15 up to a mitigated rate. And in year two, they go to
16 the final rate. And the losses that occur because of
17 that migration are kind of lumped into a regulatory
18 asset that the Company's then allowed to earn on. So
19 in the long term, the cons of that really for the
20 customer are a slightly higher rate because we have
21 that regulatory asset that we're allowed to earn on.
22 The pros are that they don't jump from \$12 to \$40.
23 They're allowed to kind of phase that in. And the
24 Commissions there really saw the benefit in the long

1 term of that, right? Very small kind of total rate
2 increase versus the gliding path that was provided to
3 those customers. So that's kind of our one example of
4 how creativity can help with this affordability during
5 the migration to a final uniform rate.

6 The next is titled: Timing and Efficiency.
7 Basically, this is kind of trying to talk about some
8 of the efficiencies that can be achieved through the
9 acquisition and transfer process, right?

10 So, you know, from Redbird's perspective, I
11 don't believe we will ever really want to bring a
12 system into a final rate at the time of closing; at
13 the time of transfer. Generally, the systems that we
14 acquire are really poorly run, really dilapidated, and
15 the customers haven't gotten good service for
16 sometimes decades. And so what we like to do is we
17 like to come in and show that we're a better provider.
18 We like to show our services and what we can do for
19 the customer prior to them ever seeing a rate
20 increase.

21 So what Red Bird would like to do is really
22 continue to adopt the rates at the time of closing and
23 have them on that glide path that I mentioned before.
24 That way, customers get to see the benefits before

1 they ever see a rate increase due to the transfer. I
2 think that's probably not the same idea as some of the
3 other companies, and I understand that. That's just
4 kind of what we've done across our footprint in the --
5 in the country, and we've seen it work really well.

6 As far as the expedited transfer process, I
7 mean, the biggest thing for me, and Molly touched on
8 this before, is an expedited process for distressed
9 systems, right? There are systems that are currently
10 providing service to customers that are truly, what I
11 would call at least, distressed, right? On consent
12 decrees, sometimes not treating sewage. Sometimes,
13 you know, sellers are kind of literally begging to get
14 out of the industry because they don't have the funds
15 to keep up. They can't keep a good operator, and what
16 I would like to see is an expedited process for
17 systems like that. Whether that's waiver requirements
18 for some of the rules. Whether that is, you know,
19 pushing rate base determination until a rate case,
20 until you can gather the necessary accounting records.
21 I think there are a lot of ways to do that, but I
22 think at a high level, it's really beneficial for
23 customers to see and to get a utility that knows what
24 they're doing as quickly as possible rather than maybe

1 taking the full six to eight months, right?

2 And that's really kind of, at a high level,
3 what I wanted to talk about and, obviously, I want to
4 give the rest of my time to questions. So, please,
5 you know, any questions you have, I'm happy to answer.

6 COMMISSIONER KEMERAIT: Thank you,
7 Mr. Silas.

8 I'll begin with a few questions, and then I
9 expect that my fellow Commissioners will have
10 questions as well. My first question is -- relates to
11 Page 3 of your -- Page 3 of your PowerPoint
12 presentation, in which you talk about policies and,
13 mechanisms that would promote system consolidation in
14 the country. And you specifically reference Arizona
15 and Texas. Do you have any more specific information
16 that you can provide about what Arizona and Texas are
17 doing to -- to promote these consolidations?

18 MR. SILAS: Definitely. I'll start with
19 Arizona, because that's kind of what I've seen and
20 what my company has seen as one of the best policies
21 in all the states that we operate in.

22 So Arizona I think first and foremost in the
23 process really delved into how to identify a
24 distressed system. So they gave just a bunch of

1 characteristics of what a distressed system is, right?
2 And I think that the biggest pro to doing something
3 like that is, it really allows for the arguing in an
4 acquisition transfer of, you know, well, this system
5 isn't that distressed. Or, you know, it's in
6 compliance 90 percent of the time, which means that
7 it's fine. It really takes the guess work out of it.
8 And it let's Companies know going in, like, hey, this
9 matches all the criteria of a distressed system. This
10 is, you know, objectively from the point of view of
11 the Commission distressed, so let's -- let's talk now
12 about how to expedite it, right? So I'd say that's
13 the primary driver behind why that's such a good
14 policy.

15 And the rest of it is, if it's a distressed
16 system, now let's talk about how to get them out of
17 the industry, right? They have something called a
18 deferred debit, which kind of like an acquisition
19 adjustment but slightly different. Basically, it is
20 meant to bridge the gap between purchase price and net
21 book value for distressed systems, specifically. And
22 it allows a Company to show, like, hey, we did X, Y,
23 and Z improvement. We've brought it into full-time
24 compliance. We did what the Commission, and the ADQ

1 in Arizona is what they're called, the ADQ told us to
2 bring it into compliance. Now let's kind of talk
3 about bridging the gap and let's talk about, you know,
4 whether or not the Company deserves to be able to
5 bridge the gap.

6 So that's kind of what I've seen as being
7 really helpful to incentivize companies.

8 COMMISSIONER KEMERAIT: Following up about
9 that. So I'll first say that we're not going to delve
10 into any definitions or discussion about what would
11 constitute what a distressed or troubled system,
12 because those are some of the arguments that are being
13 made in pending dockets. So we will stay away from
14 questions about such definitions. But, have you
15 found -- has Red Bird found that these incentives that
16 you've been talking about, have they been effective in
17 allowing Red Bird or other utilities to acquire these
18 smaller, troubled systems?

19 MR. SILAS: It has. I believe that we're,
20 in Arizona up to -- gosh. This is a little bit of a
21 guess, but I think about 30 systems that we've -- that
22 we've transferred. So in our in Arizona -- we filed
23 16 acquisition Applications, which the staff was not
24 very happy about. I think that's kind of our go-to.

1 But all of those were kind of transferred through.
2 They were all identified as distressed, and it really
3 put an incentive to the staff and an incentive to the
4 commission to allow Red Bird to come in and start
5 making those changes.

6 And I will note as well that, Florida as
7 well, we just finished up a yearlong series of
8 workshops in Florida that also put a definition to a
9 distressed system. And so we've seen other states
10 actually see the benefits of Arizona and, kind of,
11 adopt their mentality or their way of doing things.

12 COMMISSIONER KEMERAIT: And that's helpful.
13 I think that there may be some disagreement with the
14 Public Staff about whether a definition is appropriate
15 or not. So we'll leave that at that.

16 But then your slide dealing with grouping
17 based upon similar cost of service or similar
18 characteristics. And you talked about the tiered
19 approach. Have you seen -- I thought that was
20 interesting, but, have you seen that -- not talking
21 about the purchased water systems-- or wastewater
22 systems -- but have you seen like a tiered 1 or tier 2
23 grouping that some of the systems might migrate
24 between 1 and 2, and how would that work?

1 MR. SILAS: Yeah. We have. So I'll use,
2 just as a really easy example, there is a facultative
3 lagoon that is in distress, right? Some of their
4 permit limits changed or were modified, and we have to
5 clue some additional treatment at the tail end, right?
6 So their treatment technology upgrades to being a tier
7 2. We, generally, do that in a formula rate plan or
8 the next rate case. It doesn't happen automatically
9 because, obviously, when changing rates, especially
10 increasing them, doing that automatically is not good
11 for the customer.

12 So, generally, what happens is, in the next
13 rated case or the next formula rate plan filing, we
14 will make an actual filing that calls it out
15 specifically, right? System A, needed this extra
16 technology. We have the proof that it was in
17 necessary and prudent, and so we ask the Commission to
18 migrate them into that higher cost tier.

19 COMMISSIONER KEMERAIT: And then, on your
20 timing and efficiency information, you talk about how
21 in other states that they've been able to combine
22 several acquisitions into a single Application. Can
23 you provide some more information about how that is
24 done in other states and whether you have found it, in

1 your opinion, to be effective and encouraging
2 transfers or acquisitions.

3 MR. SILAS: Yeah. Definitely. I --
4 whenever I first started at CSWR about 4 or 5 years
5 ago, that's the only kind of acquisition Application.
6 I knew of was you could file four or five in one
7 single docket for one kind of, expedited transfer, is
8 what I'll call it. It definitely provides its
9 challenges in terms of data requests and providing
10 information, but it is streamlined. There is a kind
11 of a general statutory timeline for those. So it
12 does, for better or worse, force the Commission Staff
13 and the Company to work really closely to answer all
14 the questions and get the reports and recommendations
15 out in time.

16 I will say one state that -- not to mention
17 Arizona again, but, Arizona is really good as well.
18 So in those -- in Arizona the acquisition Applications
19 are treated as separate Applications. So their own
20 timelines. Their own DR's. Their own docket numbers,
21 which is helpful. But if we file, let's say, ten
22 within the same month or within the same two months,
23 then they consolidate the procedural, which really
24 helps out the Company and I think it really helps out

1 the commission there as well.

2 So rather than having ten separate hearings
3 two days apart, there's one hearing -- a lot of the
4 issues are similar, right? A lot of the arguments
5 being made are similar, so they're able to consolidate
6 that procedural schedule into one hearing. Answer all
7 the questions they have. It's a little bit a process
8 reading the docket number and transferring from one to
9 another, but overall, I think it's really helpful in
10 Arizona.

11 COMMISSIONER KEMERAIT: And I understand
12 that the efficiencies would be gained for the
13 utilities with combined applications. I think the
14 Public Staff would say that we have statutory
15 deadlines for issuing decisions, which puts some time
16 pressure on the Public Staff and that by combining
17 Applications that that be an administrative difficulty
18 or burden for the Public Staff. Do you have any
19 response to the Public Staff's concern?

20 MR. SILAS: Yeah. I would say that,
21 especially in states -- there are some states that are
22 very formal with working with Public Staff and
23 Commission Staff. And say it's like this, where we're
24 allowed to have conversations with Public Staff, I

1 think that it's in everyone's best interest to do
2 that, right? So if -- if we have to, you know, do a
3 motion for extension on the first nine we filed and
4 say the statutory timeline is based on that last one
5 to give them as much time as possible, I think that,
6 at least for myself, I would be more willing to do
7 that than have ten separate hearings, right?

8 So I think it's really just about
9 communication and efficiency in that sense, and, you
10 know, based on that example, that would give Public
11 Staff and the Commission more time on some of those
12 earlier filed acquisitions. So hopefully that would
13 solve that issue. Maybe I'm misinterpreting the
14 question, but that's one example I would see. But
15 really just communication. I think that streamlining
16 these is beneficial for everyone, local public
17 hearings, the actual hearings themselves, the
18 testimony etc. I think there's a lot that goes into
19 all of this and, you know, however we can make it
20 easier for all parties, we'd be willing to have those
21 conversations and extend the timeframe just a little
22 bit to accommodate that.

23 COMMISSIONER KEMERAIT: That might be a
24 topic for further discussion in the next stakeholder

1 meetings. And then, again, on timing and efficiency.
2 One of Redbird's recommendations is about waiving
3 items that might not be readily available at the time
4 of the transfer, like, easement or ownership
5 information. One of the -- one of the problems that
6 we've seen in North Carolina previously is when the
7 easement or ownership information is not established
8 or provided at the time of acquisition or transfer, or
9 CPCN. We can -- difficulties can really arise after
10 the fact when that information is -- when we discover
11 that there's issues with demonstrating ownership. Can
12 you respond to that? Because by providing all of the
13 information that you need at the outset prevents
14 problems in the long run that may be more difficult to
15 solve after the fact.

16 MR. SILAS: Yeah. I definitely understand
17 and agree with that point. I think what we've seen --
18 and what I've seen in other jurisdictions, is the cost
19 that goes into trying to solve issues that might not
20 ever come up. It's -- it's a balancing act, right? I
21 mean, one of the things that we do in every state that
22 we operate in is title work prior to closing. So we
23 do title work on the treatment plant, on access roads,
24 on all kinds of stuff to make sure there are no liens

1 against the facility and we have the access we need.
2 And the lift stations -- it was actually a decision at
3 the corporate level to take lift stations out of
4 that -- out of that title search process. It's very
5 expensive, and what we've seen is -- I can't think of
6 a single issue in another jurisdiction that has come
7 up with the lift stations off the top of my head.

8 So that's not a great answer obviously
9 because there are problems that come up and there are
10 issues that you'll have to tackle, and so I guess my
11 weak answer to that question is, in other
12 jurisdictions, we try and tackle those problems when
13 it comes up. Prescriptive easements is a thing that
14 we utilize in other places. But we have seen that it
15 is cost beneficial to other customer and for the
16 efficiency that we haven't done that kind of a
17 cross -- across our footprint in other states.

18 COMMISSIONER KEMERAIT: And then my last
19 question deals with rate base. And, again, this is at
20 a high-level kind of policy perspective, and not about
21 any particular Application but what I'm interested in
22 is, by deferring a determination about rate base from
23 the transfer proceeding to the first general rate
24 case, and not about any particular docket, but how

1 does that incentivize Red Bird, or another utility, to
2 acquire some of these existing systems in North
3 Carolina? What tangible benefit is there to moving
4 forward if the rate base is post -- establishment of
5 the rate base is postponed until the rate case?

6 MR. SILAS: Yeah. I'll give an example from
7 another jurisdiction to try and not keep it super
8 high-level. Tennessee is a state that allows us to
9 defer the setting of rate base until the time of the
10 Company's first rate case. And what we've seen
11 there -- and this is found in all of our settlement
12 statements as well is, six months prior to a rate
13 case, Limestone, which is the Tennessee affiliate, has
14 to file with the Commission any kind of accounting
15 record changes that it attempts to make from the
16 purchase accounting. So we do this initial purchase
17 accounting with all the assets that we know are there,
18 and we have a, what I'll call a pseudo net book value
19 that is established at the time of acquisition. What
20 we found in Tennessee with some of these troubled
21 owners is, we get in we realize that this pump they
22 said hasn't been fixed in 20 years is actually a brand
23 new pump and they expensed it. They haven't been
24 through a rate case yet, so ratepayers have never seen

1 any kind of rate increase or cost change from the fact
2 that this brand new pump was put in, but the seller
3 just didn't know that they were supposed to put it
4 into rate base, right? They didn't know how they were
5 supposed to do the accounting treatment of a brand new
6 asset or the replacement of an asset. So once we go
7 in and we see like, "Hey. You know, the seller said
8 this pump was 20 years old. It actually looks way
9 newer." Then we're allowed to have conversations with
10 the seller and get the backup documents, the
11 supporting documentation. And in that state in
12 particular six months prior to a rate case we say,
13 "Hey. Commission. Here's what we found after owning
14 and operating the system for a year or so. Here's the
15 changes we would like to make. Does this make sense
16 to you? Does this make sense to the Staff? If so,
17 then great. We're going to -- we're going to seek to
18 establish this rate base at the time of our first rate
19 case."

20 So I think the incentive is with troubled
21 systems and distressed systems and systems that don't
22 have a whole lot of accounting, acumen is what I'll
23 call it. They just did things wrong, and it gives us
24 an opportunity to sure up the accounting records and

1 to establish, you know, what we believe is the true
2 rate base. The true net book value of a given
3 facility.

4 COMMISSIONER KEMERAIT: Thank you. That's
5 all the questions I have. So I'll look to the
6 Commissions.

7 Commissioner McKissick.

8 COMMISSIONER MCKISSICK: First, let me thank
9 you for being here today. I appreciate the comments
10 you've shared. I just want to get a little bit better
11 sense in terms of that, term distressed systems. I've
12 seen it characterized perhaps by one Company in a way
13 that's different than what Public Staff might say.

14 Has there been any consensus reached about
15 what a distressed system might be? So the first part
16 of the question. And then, secondly, you pinpointed
17 Arizona in terms of what they're doing with distressed
18 systems. And I'm trying to get some idea of what that
19 timeline looks like there when you talk about
20 expediting the process to compare that and contrast it
21 to what would otherwise with be the case, say in
22 Arizona, and how that might compare contrast to North
23 Carolina.

24 MR. SILAS: Yeah. Definitely. I'll speak

1 at a really high level about the definition of
2 distressed system. So basically, the policy that I
3 kind of reference in the slides -- and I apologize, I
4 should have given a reference -- I'll do that in the
5 future. It's a really, really long policy and it just
6 lists all the characteristics. I'll -- don't know
7 how -- so I'll just say, in Arizona one of the things
8 that differs from the Florida definition is rate base
9 is zero, right, for a non-contributed system. So in
10 Arizona, they see that a rate base of zero is a
11 characteristic of a utility that hasn't invested or
12 reinvested at all, right? And if you've been around
13 for 20 years and you have reinvested zero dollars,
14 that's bad. That has real, real risks to the
15 customer.

16 So I guess what I'll say, again, at the
17 highest level is the policy in Arizona lists just a
18 bunch of characteristics that allows the Commission to
19 say, "Okay. System A is eight out of these ten." We
20 think that 80 percent means it's distressed, right?
21 Or if it's two out of ten, maybe that warrants further
22 discussion. It depends on the two. Is the two that
23 it had a catastrophic failure in the last year? Maybe
24 that's distressed. Is the two that haven't come in

1 for a rate case in 10 years? Maybe that's not so
2 much.

3 So I'll say, defining and listing specific
4 characteristics gives a level of assuredness to a
5 Company that that everyone can agree, this is
6 distressed, right?

7 And in terms of the timeline, you know,
8 recently there was a new timeline enacted on
9 acquisition cases here in North Carolina. It's
10 actually very similar, I think, to what it is in
11 Arizona. There is a shortened timeframe if there are
12 environmental violations similar to here as well. So
13 I would say, you know, it's actually pretty close. In
14 Arizona, it takes about six months. I think the
15 statute in North Carolina is seven or eight. Off at
16 top of my head. So it's not different enough to -- to
17 warrant any further discussion, I would say from my
18 perspective.

19 COMMISSIONER MCKISSICK: Thank you. That's
20 helpful.

21 MR. SILAS: Thank you.

22 COMMISSIONER KEMERAIT: Commissioner Hughes.

23 COMMISSIONER HUGHES: Good to see you again.
24 How common are purchased systems in the Central Water

1 State's portfolio and just across the country? And,
2 you know, does it vary by state-to-state in other
3 states that you have a pretty big purchase system
4 footprint?

5 MR. SILAS: Yeah. It definitely does vary
6 state-to-state. There are some states where we have
7 no purchase water systems. Some where we only have
8 one. I would say the largest -- our largest utility
9 operating company that has that purchase water -- I'd
10 say it's two, it's Louisiana and Texas. We have quite
11 a few there.

12 COMMISSIONER HUGHES: So with that being the
13 case, how do you deal with uniform water in those
14 places? What's your -- has it been any different than
15 in areas where there isn't an abundance of purchase
16 systems?

17 MR. SILAS: Yeah. So it's really about that
18 tier or district breakdown, right? So what happens,
19 I'll use Louisiana as an example, we set a single
20 revenue requirement and then we split that cost based
21 on the tiers. So purchase water and purchase
22 wastewater actually are all in Tier 3. There's no
23 other kind of treatment in Tier 3. They have their
24 own kind of breakout. And we take a much smaller

1 percentage of the overall cost of service and apply it
2 to those customers, because our operators there have
3 to respond to distribution system issues, leaks and
4 stuff, but no treatment, no, you know, daily site
5 visit of the -- of the plant. So they just get a much
6 smaller percentage cost of service than the rest of
7 them, and then the entirety of that pass through.
8 Usually adjusted for water loss. We do -- in certain
9 jurisdictions -- we're required to file annually at
10 true-up of the pass-through charge, and in some
11 jurisdictions we only file it when the supplier
12 changes their rates. So it definitely does vary quite
13 a bit. I would say that the annual true-up is really
14 helpful to us because it forces us to take a look at
15 things like loss and really kind of hone in on that
16 true pass through that to the customers.

17 COMMISSIONER HUGHES: Thank you. Just to
18 clarify, when you say the pass through is run straight
19 through; is it run through on a system level or on a
20 tier level? Do you group all the purchase systems in
21 one tier?

22 MR. SILAS: Yeah. That's a great question.
23 So the percentage of the cost of service is kind of
24 what I'll call our flat charge to those. Say we have

1 five pass through in Louisiana, they'd get a certain
2 percentage of the overall cost of services as a flat
3 fee and then the pass through is on a
4 supplier-by-supplier basis. So if one is in Northern
5 Louisiana and it's supplied by, you know, Supplier A,
6 they'd get a pass through that's specifically based on
7 what Supplier A charges us. And then in Southern
8 Louisiana, they are supplied by Supplier B. Their
9 pass-through portion is specifically based on what
10 Supplier B charges us. And that's what's helpful
11 about those annual true-ups is, it forces us to look
12 at all those systems, see if the supplier changed
13 their rates without, you know, notifying et cetera,
14 and really kind of, like I said, hone in on the
15 specific costs of service at those specific
16 pass-through facilities.

17 COMMISSIONER HUGHES: Thanks for that. Just
18 following up a little bit on Commission Tucker's
19 question -- not to you, but just to his earlier
20 question, and also Commissioner Kemeraite's -- from a
21 business stand, I would think -- first off, conformity
22 or consistency would be important, but even more than
23 that, revenue security and cash flow security would be
24 essential. So I'm just trying to figure out, when you

1 go in and make a business decision, you know, not
2 getting into any details, but just in general, not
3 having confidence about what the rate base is and what
4 the cash flow is going to be in the future, how do you
5 navigate that? And how do you -- I would just think
6 that that would be really difficult. And how do you
7 navigate, does the risk get rolled into the purchase
8 price? Because obviously you'd be carrying a huge
9 amount of risk.

10 MR. SILAS: Yeah. I think that's a great
11 question. I think that, you know, in -- I'll use
12 Tennessee as the example again, where we are deferring
13 the rate base setting into a future rate case. So I
14 would say a couple of things there; One, there is a
15 risk, right? And the fact that the Company, you know,
16 our executives, who are a little above my head, are
17 willing to bear that risk I think is good for the
18 customers, right? The customers don't bear any of
19 that risk. It's all the company, which I think is
20 good for them in the long-term. And then I think, you
21 know, and this is just -- this is just from solely my
22 perspective, if we to set net book value or rate base
23 in Tennessee at the time of acquisition, let's say it
24 is \$50,000 and our purchase price is 100,000, right?

1 That if we choose to move forward, then that's a
2 50,000 air ball. If we choose to defer, that 50,000
3 air ball is still there. It's still a risk. It's
4 just we now have an opportunity to prove to the
5 Commission that it may be more like a 25,000 air ball,
6 right?

7 So whether it's established at the time of
8 transfer and we know for a fact there's a 50,000 air
9 ball, or we have an opportunity to make an argument or
10 make our case for a little bit more net book value or
11 a little bit more rate base, I think that is just
12 beneficial to us, right? We know that's there. We
13 know about the risk, but we have an opportunity to
14 make a real case for what we believe is the true net
15 book value or rate base after we are in there and
16 operating and understand the system and understand it
17 a little bit better.

18 So from my perspective, that timeframe, the
19 customers bear no risk at all, it's just the Company,
20 and it gives us an opportunity to learn more and prove
21 our point a little bit more. So that's kind of what
22 I've seen. Sorry if that's a little roundabout way of
23 answering your question, but that's kind of my
24 perspective.

1 COMMISSIONER HUGHES: That's fine. Thanks
2 for -- a new idea comes to mind whenever I hear the
3 word air ball.

4 The last question, again, relates a little
5 bit to the negotiation that goes on, because obviously
6 this is a huge issue for everybody involved, have you
7 found states where, because of some sort of state
8 level policy, sellers are more prone to come to
9 utilities like yours with -- just a more reasonable
10 price as opposed to a state where the seller kind of
11 can just feel like, well, we can keep going the way
12 we're doing and nobody's going to come after us, you
13 know? I think it gets sort of -- how much does the
14 seller want to get out of business? And how much do
15 they feel like somebody's watching them?

16 MR. SILAS: Yeah. I mean, that's a great
17 question. I could talk about this for a long time,
18 but I'll keep it short, I promise. One of the things
19 that I've seen in Missouri, which is the state we've
20 operated in the longest, is the Missouri DNR, the
21 Department of Natural Resources, before they had a --
22 I'll say partner, because that's what I see us as --
23 before they had a partner who they knew would come in
24 and take over these extremely distressed, they didn't

1 have a means of enforcing environmental violations and
2 environment quality concerns, right? Unfortunately,
3 the reality of the situation a lot of the time is that
4 you would rather have someone there who might not have
5 the technical and managerial qualifications, but is at
6 least doing a little bit of a job than no one. And
7 what I've seen is a lot of the time, environmental
8 regulators when they try to put the pressure on a
9 seller the seller will say, "You know what, drop the
10 keys. Walk away. I'm not doing this anymore because
11 I can't keep up with it." And so what I've seen in my
12 experience is, once the environmental regulators have
13 someone to point these systems to and say, like.
14 "Hey. You're in way over your head. You're about to
15 wrack up all these fines. There's a buyer who's
16 willing let you out. And if not, then we're going to
17 really put the pressure on you and, you know, see this
18 thing through." That is the situation where we're
19 allowed to really get \$1 purchase prices, because we
20 business developers are all trained and all start
21 every negotiation with \$1. Because we operate with
22 these distressed systems, that have, you know, a lack
23 of accounting acumen and a lack of managerial and
24 technical capabilities, we think that a dollar is the

1 right place to start pretty much every single time.
2 And it goes up from there because sellers aren't
3 willing to get rid of, you know, an income stream, but
4 I found that if there're significant pressure put on
5 environmental -- buying environmental regulators, that
6 generally tends to put some sense into the seller's
7 heads about, yeah, this is an income stream but if I
8 don't get rid of it, then it's a huge liability.

9 COMMISSIONER HUGHES: That's really helpful.
10 I don't have any further questions. Thanks.

11 COMMISSIONER KEMERAIT: Commissioner
12 Brawley.

13 COMMISSIONER BRAWLEY: Thank you,
14 Commissioner.

15 I want to address two things that you were
16 suggesting out of your own experience that this
17 Commission might consider. One, you were discussing a
18 regulatory asset and this is where you are deferring
19 rate increases to a uniform rate over a number of
20 years accruing that that discount in something you
21 called a regulatory asset on which you would earn a
22 rate of return. Are you also amortizing this
23 regulatory asset over a number of years? And if so,
24 how many?

1 MR. SILAS: Yes, sir. I am not an
2 accountant, so I apologize if I get this wrong. I
3 believe the amortization period is different
4 state-by-state. I believe in one of our jurisdictions
5 it's over 20 years, and a bit shorter in one of the
6 others. But I believe it's -- 20 years is the one
7 that comes to mind. But, yes, it is amortized. It
8 is, you know, taken down so that we're not kind of
9 earning on a forever asset.

10 COMMISSIONER BRAWLEY: Thank you, sir. A
11 second phrase you used in dealing with some of the
12 deliberations in a way that y'all sometimes approach
13 and I took the inference that you were asking us to
14 look at a similar approach. You used the phrase "The
15 cost of trying to solve problems that might not come
16 up," and I wanted to explore this with you further
17 because you also made reference to risk and that by
18 not quantifying risk at purchase time and the ability
19 to recognize that risk later in a rate case, but I
20 also wondered, isn't that transferring risk on to
21 ratepayers as a whole, and to some extent maybe even
22 on this Commission to act without complete
23 information. And while I recognize that in some
24 financial transactions this might be a loss, when I

1 was listening to this, I will tell you what it
2 reminded me of, of something I've studied recently.

3 On SS Titanic, they had the number of
4 lifeboats that were required by the British Board of
5 Trade, which was only sufficient for half the number
6 of passengers that the ship would carry. And that was
7 a problem that since the ship couldn't sink, they
8 didn't feel they needed to address. Now, while I am
9 hopeful that we are not going to be in any situations
10 that have the downside of SS Titanic, I would caution
11 you, sir, we will not tend to be willing to ignore
12 potential risk without making a great deal of effort
13 to quantify it, and in some cases, asking you to do
14 the same.

15 Thank you.

16 COMMISSIONER KEMERAIT: I don't think that
17 that was a question for you, Mr. Silas.

18 MR. SILAS: No. I think it was a great
19 point. I will say that. I think that's a great
20 point. Thank you, Commissioner.

21 COMMISSIONER KEMERAIT: Commissioner Tucker.

22 COMMISSIONER TUCKER: Thank you. Having
23 only owned a 30-foot boat, I can't equate that to a
24 Titanic boat. Hopefully these questions will not even

1 boarder on concern on what's on the docket and -- if
2 it is, again, please preempt me -- if I recall
3 correctly, in my County Commission days, we had a
4 considerable amount of complaints on the independent
5 sewer systems. We also found -- and I think state law
6 allows it, and correct me if I'm wrong, Madam Chair --
7 that the state permits these systems and so when
8 their -- become distressed, the customers call a
9 politician or they'll call the county. And the
10 county's position is, not my job. We didn't permit
11 it. So that allows for these systems to kind of
12 continue to run without any supervision at all within
13 the state and they are, you know, pretty much
14 dilapidated by the time you guys take them over with
15 your dollar purchase price.

16 In other states, how are they managed before
17 they get into this precarious distressed situation,
18 which in turn requires you to come in at a dollar,
19 which in turn requires you to make an investment,
20 which in turn requires you to increase the rates to
21 recoup your investment? What's the situation -- you
22 talk about, you know, your love affair with Arizona
23 and Texas. Geographically those states are much
24 different from here, but in my county we have the

1 largest county water sewer system in the state, and we
2 are maxed out at capacity because we're a bedroom
3 community to a large city. And so we're getting more
4 and more Applications for independent water and sewer
5 Applications, within the state for my county. What
6 other management mechanisms do Arizona or Texas or
7 wherever you've worked have? How is that handled?
8 Does the county inspect? Does the state inspect? By
9 the time here the state gets around inspecting it,
10 it's a fire drill bug time. So if you could expand on
11 that, it'd be helpful.

12 MR. SILAS: Definitely. I think I'll answer
13 at a little bit of a high level first, which is that
14 the reason why Texas and Arizona have these policies
15 that -- that I am promoting so much is because they
16 are experiencing the exact same issues that you guys
17 are here in North Carolina. Really, really distressed
18 systems. Really, really dilapidated systems that were
19 ignored for a long time. I will say that there are --
20 and I'm not one 100 percent clear on the North
21 Carolina Department of Environmental Quality policies,
22 but there are some states that allow sellers to do
23 their own sampling and their own testing.

24 COMMISSIONER TUCKER: That's right.

1 MR. SILAS: And that, I have found in my own
2 experience to be a very, very bad idea. You have
3 sellers who don't want to own up to the fact that
4 their systems are not operating at the way they need
5 to be. And so I will also say that in the states
6 where that's not the case, the environmental agencies
7 have a lot of personnel, and I don't know if that's
8 the case here in North Carolina. It really varies
9 state-by-state. I have seen that funding of the
10 environmental agency and ensuring that the
11 environmental agencies have the personnel needed to do
12 the testing and to do these site visits really, really
13 helps stuff like that. I will also note that -- and
14 this is getting into probably some stuff that I am
15 very not versed on -- there are a few states that we
16 operate in where the, acquisition conditions is what I
17 call them, the conditions to transfer really start to
18 talk about environmental concerns and engineering
19 fixes, right? You have to fix this within this amount
20 of time instead of relying on the environmental agency
21 to regulate and to enforce, the commissions in some of
22 those states have -- have made it a condition of
23 closing to really focus on stuff like that, which I
24 don't know the logistics behind that, but it seems to

1 be helpful in those states.

2 COMMISSIONER TUCKER: So if I'm -- gleaning
3 from what you're saying, more inspection or reporting
4 from the state rather than allowing the owner to do
5 his own testing kind of preempts the fact that the
6 system doesn't become so dilapidated over time.
7 That's what I'm getting at, because they are in a mess
8 by the time it gets to the government level, state
9 level, county level, political level. It gets to be
10 an issue. So you're saying that more testing by
11 independent sources versus the owner doing the test
12 and submitting that data, right?

13 MR. SILAS: Yes, sir, Commissioner. I think
14 that the objectivity of knowing that, you know, your
15 system is out of compliance and the understanding that
16 that data is public and people see it and everyone
17 knows about it tends to prompt action a little bit
18 more than some situations where they can sweep it
19 under the rug.

20 COMMISSIONER TUCKER: Very well. Thank you.
21 Thank you, Madam Chair.

22 COMMISSIONER KEMERAIT: So Mr. Silas, that
23 comes to the end of questions for you. Thank you very
24 much for your presentation and for answering the

1 questions.

2 MR. SILAS: Thank you so much. I appreciate
3 the opportunity, everyone.

4 COMMISSIONER KEMERAIT: And with that, I
5 think that Carolina Water is up next.

6 MS. SANFORD: While Mr. Schellinger is
7 approaching the bench, I wanted to also recognize Tony
8 Konsul and Zach Payne who are here from Carolina
9 Water, who to provide any support that they can.
10 Thank you.

11 MR. SCHELLINGER: Good afternoon. Thank you
12 for having me here. My name is Matthew Schellinger,
13 Director of Finance for Carolina Water Service.

14 I'm going to discuss a lot of I think
15 similar things to what you've already heard, both from
16 the stakeholder meeting as well as from Central
17 States; hopefully, with a little more nuance so it's
18 not just a repeat for you.

19 I think it's important to take a step back
20 and remember from a strategic perspective really why
21 we're here. Why we're having these discussions, at
22 least from Carolina Water's perspective, right? And
23 that's that we're a long-term player in the state.
24 We've been here for 40 years. We're going to be here

1 going forward, and we see uniform rates and uniform
2 revenue requirements as that ultimate tool in the
3 toolbox -- and I think I've used this term before
4 maybe in a prior discussion -- to take the topside of
5 rates down, right? Which really gets back to the core
6 of rate affordability.

7 Every system is going to need work. They
8 may need it now. They may need it in a couple years.
9 They're going to need it eventually. And if you wait
10 until that system needs work before they find their
11 way into a uniform rate paradigm, all you ever have is
12 upward rate pressure on those rates. So you need a
13 wide base of customers. A wide base of systems that
14 have varying time points when they're going to need
15 that work so that you're really bringing down that top
16 end.

17 And the second point I have here on the
18 slide, the strategic outlook here is large utilities.
19 In Carolina Water, specifically, we provide a lot of
20 really big benefits over a lot of the smaller
21 utilities that go beyond just the ability to walk in
22 and start implementing that capital, right? We've got
23 the billing. We've got the customer service. We got
24 IT. We're able to react to changing environmental and

1 regulatory frameworks in a much better way than these
2 smaller utilities can. And there's -- there is a real
3 intrinsic value there to those customers on day one of
4 ownership even before, you know, that first pipe in
5 the ground is replaced. Like, there's benefits there
6 right there from the beginning, and I don't think
7 those can be understated.

8 This slide here is just a repeat from last
9 discussion, but I think it, once again, finds its way
10 and helps ground why I think we're here today.

11 I found a couple of notable -- what I would
12 call notable -- NARUC resolutions, that I think really
13 go back to some ideas that NARUC has identified as
14 best practices. And they, once again, get back to
15 this idea that single-tariff pricing is a mechanism
16 that can be used to spread the capital costs over a
17 larger base of customers.

18 This is a more recent resolution, but really
19 it's kind of a reiteration of that same best practice.
20 And really key here is its reduce rate case expense
21 and offer rate increase mitigation options driven by
22 the economies of scale that would otherwise be
23 unavailable.

24 Topic one, Carolina Water thinks that really

1 the only defining characteristic in rates is, are they
2 a water customer or are they a sewer customer? I'm
3 not going to go through and read through this, but I
4 do want to maybe drive home what think is a
5 distinction between both the Public Staff's
6 perspective as well as Central States perspective.
7 And that's that, if you have -- if you have tiering,
8 you naturally still have your peak. You still have
9 your highest -- you still have your most unaffordable
10 rate. You're not truly getting that benefit of a true
11 uniform rate driving down the peak, right?

12 So I think from our perspective, the rate
13 affordability question really comes at what's the
14 highest amount that the customer's paying, right? And
15 if you have a bunch of rates that are at, say low
16 tier, they're not helping shave that top rate; shave
17 that peak down for the rest of the customers. And
18 having a tiering that is potentially based on higher
19 cost treatment or do they have PFAS mitigation items,
20 you know, those things having that separation, that
21 tiering is only going to rise -- drive that peak even
22 higher. Not -- and so I think that's one of the areas
23 maybe where we differ and the true uniform rate helps
24 cut that peak off.

1 Topic 2, the incorporation of transferred
2 systems into the multi-year rate plan. I think it
3 makes sense. I think as -- if you bring them in on an
4 uniform perspective, you bring them in on uniform
5 rates which are probably a WSIC rate at that period of
6 time that it makes sense that they just naturally find
7 their way into WSIC. I think where there's some pain
8 points really comes on the performance metric
9 reporting on the back end, right? Because you may
10 have may capitalist that's based on capital that
11 doesn't include the transferred systems or other
12 performance metrics along those lines, but really
13 that's, on some level just reporting mechanisms.
14 There's way to get around reporting mechanisms.
15 There's way to be very transparent with the Commission
16 and say, "You know. Here's the original WSIC. Here's
17 the layered on transfers. Here's what the world looks
18 like." There's way to get through those, and I
19 wouldn't want reporting to hamper, I think, some of
20 all the other benefits here and keep them out of the
21 WSIC until, you know, every three or four years when
22 they roll in.

23 Let's see. Rate affordability. I think we
24 discussed this a little bit before. It really should

1 be broad programs. Broad customer assistance
2 programs. Not systems specific. You don't want it to
3 be too narrow of a benefit that otherwise you might be
4 leaving people out that really could benefit from some
5 of those customer assistance tools. The other thing I
6 think that would be a benefit -- and I'm not sure the
7 best way to get it across -- is that I think there are
8 a lot of customer assistance tools in the state at
9 county levels, at municipal levels, at just large
10 entity levels, and a big piece that I see as a problem
11 here -- or an opportunity really is really more of the
12 noticing. It's the, how do you actually get all of
13 those tools that are there into the customer's hands?
14 And that's really, I think, more of -- I think an
15 easier direction to at least start with, right? How
16 do you make sure that the customers know what's
17 available in their county, what's available in their
18 municipality, what's available near them from those
19 entities? I'm not sure that that part of the
20 question's as well answered.

21 And then to the extent that a CAP is --
22 customers assistance program -- is implemented, it
23 should be easy to access and apply for, broadly
24 communicated, and simple and efficient to administer.

1 Topic 4, let's see. Whether a system has a
2 cost of service less than the uniform rates of service
3 should be included in uniform rates at the time of
4 transfer. So as discussed in the stakeholder meeting,
5 we really read this in a very narrow transfer
6 acquisition perspective. Not necessarily like the new
7 developer CPCN that comes in, because I think there's
8 lot of not a lot of disagreement on, say, a new
9 developer CPCN coming in at the uniform rate. So to
10 the extent that they are lower, we think they should
11 still just come in at uniform rate and then in the
12 next multi-year rate plan, those revenue requirements
13 get combined and the rates get adjusted on that full
14 outlook at that point and time.

15 And really, the primary goal there is that
16 if you wait -- if you're constantly waiting until a
17 system's cost of service gets high enough to where you
18 think it should go into a uniform rate, then you
19 you've removed all of that benefit for that period of
20 time up until when their cost of service might be high
21 enough that there's, you know, at some level the
22 Public Staff will say, "Okay. We're close enough.
23 They can roll in." Right. But if you roll them in
24 from the beginning, they start getting that benefit to

1 the whole rate group from the beginning.

2 Should the Commission consider appropriate
3 ongoing policy use uniform rates? And once again,
4 yes, I believe that they should.

5 Mechanisms that facilitate addition
6 transfer, small water and the wastewater utilities,
7 from my perspective -- and we've recently finished up
8 several acquisitions before you -- the full cost of
9 service support and going through that whole
10 discussion about well where are their rates right at
11 this point and time, it takes a lot of administrative
12 time. It's an incredible amount of discovery.
13 It's -- I'm sure just as much time on the Public
14 Staff's front going through all of those weeds and
15 coming to that -- that determination.

16 And ultimately, if uniform rates is the
17 policy, we can eliminate a lot of that burden I think.
18 The other side of that burden -- and this probably
19 really tracks straight into Topic 7, has to do with
20 the setting of rate base because this is -- it's, once
21 again, a very timely -- or a -- it's very hard to
22 justify the rate base for some of these systems on
23 some level. And a recent acquisition -- I think it's
24 closed now so I can discuss it -- I sat there for days

1 going through three years of invoices because, to Mr.
2 Silas' point, the utility just expenses everything.
3 They don't know that they need to go and capitalize a
4 pump or capitalize these main replacements. I sat
5 there for three years -- or going through three years
6 of invoicing to say, "Look if this were our system, we
7 would have capitalized this, and we capitalized this,
8 and we capitalized this." And presenting all of that
9 information all of that discovery to the Public Staff
10 in order to justify a rate base that ultimately was
11 where the seller needed -- wanted to exit, right?
12 Because that's the thing. We all go in for a dollar,
13 but the sellers believe there's value to their assets,
14 and there's value to their income and they're not
15 selling to anybody for the dollar.

16 So getting to that rate base number is -- I
17 think it's difficult, it's timely -- or
18 time-consuming, but we do think it also needs to be
19 established at the transfer Application point. This
20 is maybe an area where Carolina Water disagrees with
21 Mr. Silas and Central States.

22 If a rate base determination is made that is
23 lower than -- than the purchase price, we need to know
24 about that. We need to know about that right up front

1 because it really could change the dynamics or the
2 math on if it makes sense to continue with that
3 acquisition.

4 The that's -- those are my key takeaways,
5 and hopefully I didn't repeat too much of what we've
6 already heard this afternoon.

7 COMMISSIONER KEMERAIT: Thank you for the
8 presentation. I have a few questions to begin with.

9 Starting on Page 6 about Topic 1. And this
10 is for clarification. You talk about how the lack of
11 metered or flow data might limit the consolidation of
12 rates. And can you -- can you explain about the
13 constructs for the metered and unmetered tariffs that
14 you talk about in your Topic 1 that might provide
15 better alignment for consolidation of rates.

16 MR. SILAS: Sure. So I think the way that
17 we do it in current rate cases is probably the best
18 way to do that going forward. So if you have metered
19 sewer or unmetered sewer, or flat rate sewer that
20 right now the way the rate making is done is we say,
21 Okay. The average customer uses, say, 3,700 gallons a
22 month. We can impute from the base charge and 3,700
23 gallons of usage that a per ERC or per SFE customer is
24 really the math is that simple. Let's pretend that

1 flat rate uses that same 3,700 gallons a month and it
2 just kind of impute what a flat rate customer would be
3 at that level.

4 COMMISSIONER KEMERAIT: Okay. So that would
5 be no impediment toward consolidation of rates, from
6 your perspective?

7 MR. SCHELLINGER: I don't think so, no.

8 COMMISSIONER KEMERAIT: And then moving on
9 to Topic Number 5; you talk about how uniform rates is
10 the preferential way, in your view, unless there is
11 extenuating circumstances, and you talked about your
12 response to Redbird's proposal about having some
13 tiering type of system, which to me, the tiering
14 system is similar to an idea of -- at a more extreme
15 circumstance of standalone rates of having different
16 types of rates. But you do say that there might be
17 extenuating circumstances that would warrant
18 standalone rates or, you know, possibly a tiering
19 among those different types of rates. Can you talk
20 about when you think that -- what those types of
21 extenuating circumstances might be?

22 MR. SCHELLINGER: I think the first one that
23 comes to mind really is a rate shock question. And
24 it's maybe more timing verse -- you know, how long --

1 at what level -- we want them to get there, so how
2 long does it take to get them there? I would say the
3 first extenuating circumstance really should be rate
4 shock. With still the ultimate goal to get them
5 there.

6 I think another extenuating circumstance --
7 I think I could talk about this because it's a closed
8 docket, our Mountain Air acquisition -- there's kind
9 of some, like, extra stuff in there if you will and
10 that would be like the EO recovery of an under
11 recovered balance for the EO system or different
12 treatment of, say, purchase price as a rider or
13 something like that.

14 So those are the kinds of things I would say
15 would be extenuating circumstances, but they wouldn't
16 necessarily preclude those systems finding their way
17 into an uniform rate. And some of the ways you could
18 get around that are I think exactly what is done in
19 that docket, which is something like a surcharger or a
20 rider. So they could still be fully uniform, but then
21 if there's something special about them, you could
22 handle that through a surcharge.

23 COMMISSIONER KEMERAIT: And then moving on
24 to your Topic 6, which is about ways that we can

1 facilitate transfers of these smaller or troubled
2 systems. On that topic, you suggested that there
3 should be perhaps some sort of waiver of what you
4 called certain details for nonviable systems. And can
5 you tell us what you mean by the certain details?
6 What do you think that the Commission should be
7 waiving to allow these transfers?

8 MR. SCHELLINGER: I think probably a lot --
9 once again, back to the cost of service. A lot of the
10 financial information; the financial addendum. The
11 reality is, a lot of these smaller systems, they are
12 not going to have a material impact to Carolina Water
13 Service's revenue requirement as a whole, right? A
14 couple hundred thousand dollars of revenue on many
15 millions of dollars of revenue as a percentage is not
16 going to materially change the nature of the service
17 provided or the financial viability of the Company or
18 any of that. So I think in the continuous extension
19 Applications, there's a section that says, like, if
20 this continuous extension is the survey a nominal
21 number of customers you can ignore pages like four,
22 five, and six. And I'm sure I'm getting the pages
23 wrong there, but there is almost like this opt-out and
24 the continuous extension that says, you know, maybe

1 this isn't significant enough to matter. I'm not sure
2 what nominal number of customers is yet, we haven't
3 quite found that exact number yet, but there is some
4 level where it's not going to financially impact the
5 utility to need to get into that level of weeds. So I
6 would say those would be the kinds of items that would
7 think of.

8 COMMISSIONER KEMERAIT: And I think you
9 referred to the cost of service information as being
10 time-consuming and administratively burdensome to be
11 determining that at the time of transfer. Public
12 Staff has -- believes that that information is
13 important at the time of transfer. Are there other
14 ways that that -- that the information could be
15 provided to the Public Staff and then the Commission
16 and determined without it being, you know,
17 time-consuming and so difficult from an administrative
18 practice? Is there an alternative that you have?

19 MR. SCHELLINGER: I'm not sure there's an
20 alternative. I think there's maybe some middle
21 grounds. For instance, in one of our cases we just
22 wrapped up of the Echota acquisition, you know, the
23 Water Resource Management's Annual Report had them
24 significantly higher expenses and losing money every

1 year but we still did this full work up of what would
2 their costs look like if they're a CWSNC customer from
3 the ground up in order to try to justify, you know,
4 some level of cost service. So, you know, utilizing
5 the prior annual reports. I'm not sure that's the
6 best answer, because I would -- I mean, and I think we
7 demonstrated, we're going to be able to walk in and
8 provide the service for less maybe than he was, at
9 least from an expense perspective there.

10 The other -- I think the other side of it is
11 just the level of detail that is reviewed, right?
12 Needing to review hundreds of Duke Energy electric
13 invoices is only so valuable, right? So on some
14 level, it's a little bit of, how much does the Public
15 Staff need to review and sample in order to actually
16 get comfortable? And if one of those \$100 Duke
17 invoices is wrong, what's -- where's the actual
18 benefit there for all of that work and all that
19 sampling and all of that administrative burden? And I
20 don't know exactly where that line is, but that's part
21 of the administrative burdensomeness is getting that
22 right level of review and that right level of
23 sampling. So I can stop there.

24 COMMISSIONER KEMERAIT: That's helpful. You

1 also talk about some incentives that could be provided
2 to encourage these transfers of the small troubled
3 systems, and you -- I think you specifically mentioned
4 ROE adders and post and service return. So I've got
5 two questions about that. What about -- how would
6 that -- those incentives would increase costs to
7 customers so what benefit would -- when you're
8 weighing cost and benefit would that provide to the
9 customers that are being transferred in the existing,
10 and then are you operating in states -- other states
11 that actually allow these ROE adders and post and
12 service return?

13 MR. SCHELLINGER: I'm not very familiar
14 which other states may have the ROE adders. I'm
15 vaguely familiar with the post in service return, and
16 I believe it's mostly from an example that I've heard
17 about here in North Carolina, actually, where the
18 docket was left open for a period of time in order to
19 finish some capital improvements in the near-term.

20 I'd say that that's helpful, but it's maybe
21 not -- doesn't actually fix the problem, right?
22 Because if it takes you a, say, a year to deploy the
23 capital, do you really want to leave the docket open
24 for a year? What is near-term capital? And should,

1 you know, we not have a uniform rates? Or as soon as
2 I finish that capital, should I be knocking on the
3 door for a rate case that day? I don't -- I mean,
4 that's not administratively beneficial for anybody
5 either. So I don't really know where that middle
6 ground is.

7 You know, the other thing is, you could set
8 rates as in a MYRP effectively for those transfers.
9 We're going to install this capital over the next
10 three years, let's set rates based on that capital we
11 are going to install over the next three years. That
12 can be one way to kind of get around it or mitigate it
13 without needing to leave the docket open in that kind
14 of example.

15 COMMISSIONER KEMERAIT: I'm going to finish
16 up. Two more questions, and then turn it over to the
17 other Commissioners.

18 But, Topic 7 in your presentation, you
19 stated that about establishing the rate base at the
20 time of transfer at/or in your first general rate
21 case. And in your presentation, you said -- the
22 written presentation you stated that it potentially
23 should be at the option of the utility, but my
24 understanding from what you're saying today is that

1 Carolina Water advocates that it's appropriate to
2 determine the rate base at the time of transfer as
3 opposed to the first general rate case; am I
4 understanding your position correctly?

5 MR. SCHELLINGER: I think it should be at
6 the option, but I'll say that, unless there is one of
7 these kind of extenuating circumstances, the option
8 that we would choose is that we would like it set at
9 that transfer proceeding for each of them.

10 So I think saying there's no option would
11 preclude you needing to make these decisions based on
12 some of these other extenuating circumstances. So
13 there should be some leniency there, but from our
14 perspective vast, vast majority of the time we would
15 be requesting it be made at the time of the transfer
16 proceeding.

17 COMMISSIONER KEMERAIT: And last question
18 about how to encourage these transfers. And one of
19 the ideas is combining Applications of systems into a
20 single Application. Is that something that you think
21 is appropriate and would encourage transfers, and are
22 you seeing figure in any other state?

23 MR. SCHELLINGER: I'm not familiar with it
24 in any other states. I would say from maybe a general

1 perspective it could be beneficial, but I would -- but
2 I'm going to flip it a little bit from my own
3 perspective and just looking at our own timeline, the
4 acquisitions don't come in a pile of five or a pile of
5 ten. It's one and then a delay. And then one. And
6 then a delay. So I don't see that it would have
7 helped, say, any of our more recent transfer
8 proceedings having, you know, a pile of acquisitions
9 together. That just would not have not applied to us.

10 COMMISSIONER KEMERAIT: Thank you. So I'll
11 check to see if the Commissioners have any questions.

12 Commissioner McKissick.

13 COMMISSIONER MCKISSICK: You spoke about
14 customer assistance programs. And obviously there's a
15 consensus that this issue of affordability needs to be
16 addressed. Is there anything that you've seen in
17 other jurisdictions that you could say could serve as
18 a model or as a benchmark in terms of best practices
19 or models to address the variety of issues that are
20 faced by different utilities, particularly when taken
21 to account the size of these different utilities even
22 when they're acquired? So, I mean, what thoughts do
23 you have other than just a consensus among those that
24 are involved with water systems and acquisition

1 systems that the issue of affordability needs to be
2 addressed in a comprehensive way?

3 MR. SCHELLINGER: I don't have a lot of
4 experience in maybe some -- maybe in how other states
5 are handling it. I know some states have some, say,
6 low-income rates available to them. I know in other
7 states that would cause large discriminatory rates
8 issues. So it's kind of based on how the statutes are
9 written in any given state for that sort of thing.
10 I -- yeah. I apologize. I don't have a lot of
11 experience.

12 COMMISSIONER MCKISSICK: That's fair. I
13 guess, you know, since it was one of the things that I
14 guess all the stakeholders agreed upon, I just wonder
15 other than there being a consensus if anything emerged
16 about ideas or best practices or approaches other than
17 what was generally touched upon during this kind of
18 the stakeholder briefing component of the meeting
19 today.

20 MR. SCHELLINGER: I can tell you, I'll do
21 some research on it before the next meeting.

22 COMMISSIONER MCKISSICK: That'd be great.
23 Thank you, sir.

24 MR. SCHELLINGER: Thank you.

1 COMMISSIONER KEMERAIT: Commissioner Tucker.

2 COMMISSIONER TUCKER: Just one quick
3 question. Since all three Companies pretty much are
4 singing from the same song sheet as I've read, and
5 you've done all this work, have you quantified the
6 benefit to the Company in terms of overhead cost,
7 administrative cost, et cetera, that you would save if
8 the Commission chose, down the road after much
9 discussion, to have uniform rates?

10 MR. SCHELLINGER: I have not quantified a
11 benefit to the Company, no. I'm not sure there is a
12 ton of benefits to the Company here, specifically,
13 right? The Company sees the rate pressures coming.
14 We see that as a very real challenge, and this is one
15 of the tools to help. That doesn't put more money in
16 the Company's pocket by any means, but it helps those
17 customers at the higher end.

18 COMMISSIONER TUCKER: So you got 85
19 employees for the State of North Carolina, and you
20 don't have to file or do as much reporting to Public
21 Staff, Commission, that would reduce overhead in
22 numbers of people that's required to balance out
23 what's required from Public Staff and the Commission.
24 It seems to be some reduction that would be for the

1 Company.

2 I'm just point blanking asking you what
3 financial advantages. All three Companies are saying
4 the same thing. There's got to be a benefit. You're
5 business people. Profit is required for you to stay
6 in business. I would have thought you perhaps, or the
7 other companies, would have had some sort of
8 quantified number that you saved 10 percent or 15
9 percent in overhead cost simply by going to uniform
10 rates is kind of where I'm coming from. And then, if
11 I can get on the other side of that, perhaps there
12 could be -- if there was a savings there, there could
13 be a rate reduction to the consumer. You know, I'm
14 just asking.

15 MR. SCHELLINGER: Sure. I don't think
16 you're going to see any really reduction, but I would
17 say that it's going to reduce -- it's going to make
18 that next needed head count take longer, right?
19 It's -- we're not going to need to hire the next
20 regulatory reporting person as soon as we would
21 otherwise.

22 And I think that's really more of where I
23 see the benefit, right? We an incredible amount of
24 reporting we do already even taking a chunk of that

1 reporting away isn't going to reduce a head count, but
2 it might make that next head count not come as quickly
3 is that where I would think the main benefit is there
4 from something like that. Reducing some of that
5 administrative burden.

6 COMMISSIONER TUCKER: Okay. Thank you.

7 COMMISSIONER KEMERAIT: Ms. Sanford, I see
8 that you're trying to address the Commission.

9 MS. SANFORD: I am. If I might. And I'm
10 not sure that I ought to be, because you're here to
11 hear from these other folks, but I do have a comment
12 that I think is relevant to Commissioner Tucker's
13 question here. If there is a reduction in expenses,
14 then that will be captured -- and I would invite an
15 argument on this -- but that would be captured in this
16 process. It'll be captured by the Company and then
17 reviewed by this process.

18 And there's another issue that I don't know
19 that we're talking about, but it looms in the room on
20 this and that is that the Companies are concerned for
21 all kinds of reasons about internal efficiency, but
22 they're also very concerned about this tide of rate
23 increases that you know about it and that the
24 Companies are speaking about and that they see coming.

1 It's -- you know, a lot of that is code for
2 PFAS and other emerging contaminants, but it's not
3 just that. It's aging systems, systems that were
4 donated but now have to be replaced by the Company.
5 It's all that combination of things that are driving
6 rates up. And that is a lot of things including --
7 these are my words and not the Company's -- but I'll
8 say not so good for business, you know. It's bad --
9 it's very concerning for customers to be facing what
10 it seems like might be coming with respect to the rate
11 increases. So the push for efficiency comes from so
12 many reasons inside the Company.

13 Thank you.

14 COMMISSIONER KEMERAIT: I think that comes
15 to the end of the questions, and thank you for your
16 presentation.

17 So I think now we'll move on to the
18 presentation from Aqua.

19 MR. DROOZ: Ruffin Poole and Kim Joyce are
20 presenting.

21 MS. JOYCE: Good afternoon. My name is
22 Kimberly Joyce. For those that don't know me, I work
23 for Aqua and Essential Utilities. I've been with the
24 Company for over 17, 18 years now. I've worked on --

1 intimately on every rate case for Aqua North Carolina
2 during that time period, and it's always been a
3 pleasure working with the Public Staff and the
4 Commission. So happy to be here today. I am not
5 Shannon Becker. He wishes he was here today. He is
6 on a paid time off vacation. So, again, he wishes
7 that he was here and apologize getting them, but
8 please be easy on me because I'm filling in for him.

9 To the left here is my colleague, Ruffin
10 Poole, he is the Director of Development and
11 Regulatory Affairs for Aqua North Carolina.

12 We try not to repeat what has already been
13 said, and I think we have some initial thoughts and
14 comments and then we'll run through the questions.
15 But, again, try not to be repetitive of what has
16 already been stated on the record here. Before I
17 forget, I did want to follow-up on a question that
18 Commissioner Kemerait had from -- from Red Bird on
19 certain proceedings, and I think you had asked about
20 Arizona and Texas. And I think we heard the answer in
21 Arizona, but I did in my notes have a discussion on
22 Texas because the Texas Commission, as we speak, is
23 investigating the exact same issues that we are here
24 in North Carolina. And they have a live open docket

1 on implementing a statute called the Filed Rate
2 Doctrine. And that Texas Commission, the State of
3 Texas has many, many small distressed systems
4 scattered throughout their state. And they have a
5 policy and they want to encourage the class A water
6 utilities to purchase those and consolidate those
7 acquisitions where it makes sense.

8 And so the Commission, along with industry,
9 worked on legislation called this Filed Rate doctrine
10 and it's how you bring in troubled systems into a
11 consolidated rate structure. And the statute actually
12 says that the utility can propose in the Application
13 process a current rate that the utility already has.
14 So I just throw that out there. It's really easy to
15 research on the Texas Commission, and I have the
16 docket number here that I wrote down. It's Docket
17 Number 53924. If you have the time, you'll -- I think
18 you'll hear a lot of similar arguments and it's the
19 same topic that that Commission is struggling with,
20 but I just wanted to throw that in there before I
21 forget.

22 Again, high-level, you know, before we dive
23 into Question 1, and this does I think follow-up on
24 Commissioner Tucker's question or comments. When I

1 think about North Carolina and the rate cases that
2 we've had before this Commission, and we describe the
3 North Carolina Regulatory Environment to people in the
4 industry, to shareholders, to customers, I describe
5 the regulatory policy of this Commission as
6 encouraging consolidation and having single-tariff
7 pricing, right? We've lived that. We've done that
8 and, you know, we started that process over 20 years
9 ago and that will be my next slide if we get there.
10 One more. One more.

11 And so when I think about -- when we were
12 thinking about preparing in our answers here, to me,
13 the question that -- the assumption we had about the
14 focus of these proceedings here is not so much whether
15 single tariff pricing is good, a benefit, we've
16 clearly seen the benefits of single tariff pricing for
17 Aqua North Carolina, particularly when you -- you
18 know, before, as we sit here today, we have five
19 different revenue requirements. But at one point,
20 there were many, many more boxes on the left hand side
21 there. And that created a lot of administrative
22 issues, tariff confusion, and over time, we've worked
23 to merge and consolidate. So in our world, we call
24 that single tariff pricing and we a consolidated rate

1 structure. It might not be one, and we might get
2 there, you know, to the right side of the screen
3 that's Aqua North Carolina in the future, right? We
4 can get to one water and one wastewater, but that will
5 be our burden to present to the Commission at the
6 right time.

7 But that's where we'd like to get to but,
8 again, we think we single tariff pricing in North
9 Carolina. Can we move some of the tariffs further
10 along? Certainly. But, again, that'll be our burden
11 of proof to present the Commission at the right time.
12 But it was really, really important I believe to have
13 that mechanism and to continue to have that mechanism
14 particularly when you look with all the issues that
15 we've had with iron and manganese and certain other
16 secondary water quality issues that we've had over the
17 past decades. Without single tariff pricing, the
18 impact on rates for some of our customers -- you know,
19 our systems I think are similar to Carolina Water,
20 lots of -- lots of small groups of customers.
21 Thirty-five customers, fifty customers. And to put in
22 some of these filters, if we would of had it would
23 have had standalone rates for those customers, it
24 would have been cost-prohibitive.

1 So just wanted to set the stage in how we
2 think about single tariff pricing. I think our focus
3 here is, if the policy of this Commission is to
4 encourage acquisitions, how do we encourage
5 acquisition in, you know, at the same time and in
6 correlation with single tariff pricing? I think
7 there's lots of different policies, best practices
8 around the country that we can utilize to meet those
9 goals.

10 The other note that I had before I get into
11 sort of the details -- and I did not think this was
12 going to be controversial, but just based on the
13 conversation, the tone, you know, if there's an ask
14 from industry, and I think you hear this a lot, you
15 know, guidance is important. And I think guidance on
16 what types of acquisitions you'd like us to bring
17 before you, ranges of purchase price, what will
18 constitute a distressed system? That kind of guidance
19 is helpful for the industry. And I don't think the
20 industry thinks that it's going to be a check the box.
21 You have this and you get that. I don't think that's
22 what we're asking for. But a list of examples, like,
23 help our business development teams. Help our
24 management teams understand the expectations of Public

1 Staff and ultimately the Commission. As you know, the
2 ultimate goal is to try to consolidate and help
3 customers in the end.

4 So with that, I think I answered Question 1.
5 Question 2, I see as a technical question. You know,
6 how can we technically incorporate systems into the
7 WSIC multi-year rate plan? My view of this -- and I
8 think Aqua North Carolina's view of this is listen,
9 the multi-year rate plan is new. We don't know what
10 we don't know at this point. So it's a learning
11 process. But I think the answer to the question is,
12 yes, we can technically include new acquisitions in
13 the multi-year rate plan. It's just going to probably
14 take some growing pains and some learnings, but we can
15 technically do it. There's just going to have to be
16 flexibility in the models and how we think about
17 capital investment and maybe not managing to a
18 particular dollar amount, but there's going to have to
19 be flexibility in doing so.

20 The third question about low-income
21 programs. So we're currently in nine different states
22 and we have different varying types of low-income
23 customer assistance programs. I would say on one
24 range of the spectrum, which is a fairly aggressive

1 program in Pennsylvania, we have a fully customer
2 funded customer assistance program. It's 100 percent
3 subsidized by rate-paying customers. And on, you
4 know, the other range of the spectrum, we have much,
5 much smaller programs which are funded by our employee
6 base. Which are funded by different types of grants
7 that we apply for. So there's all different
8 mechanisms. I personally believe that, you know, I
9 know we look through -- we look to the statute that
10 talks about discriminatory ratemaking. I personally
11 believe that there's flexibility in that definition to
12 have funded low-income programs, but that's a policy
13 decision for the Commission. And I think we
14 understand that.

15 And the last question before I turn it over
16 to my colleague here. I think, you know, this is the
17 question about, you know, if -- if the policy goal is
18 to encourage consolidation, and encourage
19 acquisitions, there's definitely going to be instances
20 where cost of service can either be higher or lower
21 than what I would call the uniform rate at the time
22 and there's ways to deal with that. But, you know, I
23 think that moving to -- and we've talked about in the
24 life of the transfer Application. Setting a rate in

1 that Application can be very, very beneficial and the
2 end of the day it will encourage acquisitions, because
3 more often than not, the cost of service is going to
4 be lower than what you would call the uniform rate.
5 And that, more often than not, that rate is going to
6 reflect lower investment because that owner did not
7 put in an investment that the utility did.

8 So moving that rate up might be unfair for a
9 period of time, until that utility invests in the
10 system. But at the same time, if there is a policy to
11 move it to the main division rate or the uniform rate,
12 that's going to encourage acquisitions. So it's not
13 perfect, but it's, again, what your policy goal is.
14 So with that, Ruffin.

15 MR. POOLE: Thanks, Kim. We've heard a lot
16 of this, and I'll just touch on a few things and then
17 we'll move on to questions. But Question 5 was about
18 the policy determining rates at the time of transfer
19 and, as Kim touched on, there's a need for certainty
20 from Companies, right? We want to understand what the
21 policy is of the Commission, what is expected of the
22 Companies, from the Commission, the Public Staff. So
23 there's a need of certainty at the time of transfer.
24 I mean, the default should be that uniform rates are

1 to be expected. There are some exceptions that could
2 warrant in a case-by-case basis, and I think those are
3 determined as they come up, right? And sort of, you
4 see them when you know them, when you run across them.
5 They are typically exceptional circumstances that take
6 place. So we support an ongoing policy and the
7 general movement to uniform rates because the benefit
8 for all the customers.

9 On Question 6, the establishment of
10 criteria. We've talked about that. I think that's
11 the same thing. We want to know what the criteria is
12 that's acceptable. There may be a range of those.
13 And what defines a troubled system, or disadvantaged
14 system? I know at one point and time the Commission
15 and the Public Staff actually used to have a list that
16 they maintained that were under some sort of
17 classification and provided those to the Companies
18 encouraged them to take a look at those, right?

19 So there's been previous policy by former
20 Commissions and Public Staff, you know, putting some
21 type of parameters around those. So I think there
22 maybe just needs to be a dialogue or discussion about,
23 you know, what that is how we view that. Does that
24 need to be a policy? Does it need to be statutorily

1 put in place? And so we had those discussions and
2 kind of continue to courage that as we move forward,
3 again, understand what those are and how we can work
4 through those.

5 And then, finally, on the last question on
6 Question 7, talking about the need for knowing a
7 transfer proceeding, and I think it's been clear that
8 that's critically important to the Companies, right?
9 We need to understand as we go in and we go talk to
10 these systems, you know, how we're going to be treated
11 and what the rate base is going to be, you know, at
12 the time and I think we accept that as a generally
13 accepted practice.

14 Kim, unless you have anything else to add, I
15 think we're open to questions.

16 COMMISSIONER KEMERAIT: So we are at two
17 hours now, so we're going to take a 10-minute break
18 and come back at 3:10 for questions from the
19 Commission.

20 (A recess was taken from
21 3:00 p.m. to 3:10 p.m.)

22 (See Volume 2)
23
24

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
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