

SANFORD LAW OFFICE, PLLC
Jo Anne Sanford, Attorney at Law

June 12, 2019

Via Electronic Filing

Ms. M. Lynn Jarvis, Chief Clerk
North Carolina Utilities Commission
4325 Mail Service Center
Raleigh, North Carolina 27699-4325

Re: Aqua North Carolina, Inc.
Docket Nos. W-218, Subs 497 and 497A
Affidavit and Response to Ordering Paragraph No. 17 in the North
Carolina Utilities Commission's Sub 497 General Rate Case Order of
December 18, 2018---Second 90-Day Report

Dear Ms. Jarvis:

Attached please find for filing the affidavit of Joseph R. Pearce, Jr.,
Director of Operations for Aqua North Carolina, Inc., responding to the directive
contained in Ordering Paragraph No. 17 of the Commission's *Order Approving
Partial Settlement Agreement and Stipulation, Granting Partial Rate Increase,
and Requiring Customer Notice* entered in Docket No. W-218, Sub 497 on
December 18, 2018.

I hereby certify that a copy of this filing has been served on all parties of
record.

As always, thank you and your staff for your assistance; please feel free
to contact me if there are any questions or suggestions.

Sincerely,

Electronically Submitted
/s/Jo Anne Sanford
Sanford Law Office, PLLC
State Bar No. 6831

Attorney for Aqua North Carolina, Inc.

c: Parties of Record

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JUN 12 2019

STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH

DOCKET NO. W-218, SUB 497
DOCKET NO. W-218, SUB 497A

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of		
Application by Aqua North Carolina,)	
Inc., 202 MacKenan Court, Cary North)	AFFIDAVIT OF JOSEPH R.
Carolina 27511 for Authority to Adjust)	PEARCE, JR., DIRECTOR OF
And Increase Rates for Water and)	OPERATIONS, AQUA
Sewer Utility Service for all Areas)	NORTH CAROLINA, INC.
in North Carolina)	

NOW COMES Joseph R. Pearce, Jr., Director of Operations, Aqua North Carolina, Inc. ("Aqua NC" or "Company"), being duly sworn, who hereby executes this Affidavit on behalf of Aqua NC in Docket Nos. W-218, Sub 497 (a general rate case) and Sub 497A (a reporting docket), in response to an order of the North Carolina Utilities Commission ("Commission" or "NCUC").

On December 18, 2018, the Commission entered an order in Docket No. W-218, Sub 497, captioned *Order Approving Partial Settlement Agreement and Stipulation, Granting Partial Rate Increase, and Requiring Customer Notice*. Ordering Paragraph No. 17, at page 185, provides as follows:

That given the number of customers and systems affected by iron and manganese, Aqua NC shall **investigate and evaluate** the possibility of entering into agreements with vendors of home water filtration systems and replacement filters for such systems for a discount for Aqua NC customers and shall file a report with the Commission on the status of this evaluation within 90 days after issuance of this Order and every 90 days thereafter until such investigation and evaluation is complete. (**Emphasis added**)

On March 14, 2019, Aqua NC submitted its first 90-day report, in which the Company described the status of its investigation and evaluation of the possibility of entering into agreements with in-home filter vendors. This second report addresses the continuation of the Company's investigation and analysis of the options, and the collateral impact of attempting to adopt such a program. Aqua NC concludes this report with a recommendation that the Commission consider this investigation and evaluation to be complete and terminate this inquiry. Alternatively, the Company requests that the Commission convene a workshop, or technical conference, open to participation by interested parties and mediated by the Commission or a member of its staff to assess the opportunities and the constraints associated with all options that have been identified thus far.

AQUA'S SECOND 90-DAY RESPONSE TO ORDERING PARAGRAPH NO. 17

Unintended Consequences of Affiliation with Unregulated Vendors

Aqua America, Inc. ("Aqua America"), the parent company of Aqua NC, has no existing arrangements with home filter manufacturers or vendors to provide a home filter discount for any of its water customers—either in North Carolina or within any of the other seven states where Aqua America operates. Thus, no parallel situation exists in which either Aqua America or a subsidiary is leveraging its purchasing power with a provider of home filtration on behalf of Aqua customers.

Aqua NC has determined that an interest in working with the Company might exist in the local home filtration vendor market, in part because such a relationship could be seen as an endorsement of the filtration product by

Aqua America or Aqua NC. Aqua America is the second largest publicly-traded, investor-owned utility in America and Aqua NC is the largest investor-owned water and wastewater utility in North Carolina. The very reasons that such a relationship might be attractive to a vendor, even beyond the actual number of subscriptions generated by the direct association, are reasons that prompt material and significant business concerns on the part of the Aqua companies. Aqua America and Aqua NC are extremely protective of their brand and reputation, particularly given the nature of the business and the enormous obligations of transparency and of careful stewardship of their regulatory responsibilities.

Regulators, along with Aqua, are also historically extremely sensitive to any unintended endorsement of non-regulated entities via various kinds of affiliation with a regulated industry. Although many home filter products perform filtration or water softening services effectively and appear to be marketed by reputable companies with established name brands, neither Aqua America nor Aqua NC provide home filtration services, and neither is comfortable evaluating and endorsing any vendors---either directly or collaterally, simply by association.

Finally, Aqua NC is concerned that customer dissatisfaction with either costs or service quality from a third-party vendor might translate to complaints about Aqua---in matters over which the Company has absolutely no control and the Commission has no jurisdiction.

Difficulties of Compliance with Regulated Utility Protocols in the Unregulated Water Filtration Marketplace

Aqua NC's assessment is that in-home filter vendors work to provide a water quality solution that addresses personal preferences for individuals that, at

times, do not necessarily correlate with regulatory standards. In so doing, vendors may logically recommend a more expensive filter or replacement filter size that removes contaminants to much lower levels than may be required by the strict governmental standards that regulated providers---like Aqua NC---are required to meet. Note that, for health-related reasons, some minerals are deliberately maintained in water supplied by providers like Aqua NC. Similarly, certain chemicals are added by utilities, including Aqua NC, that are intended to provide other benefits, such as chlorine for disinfection. These components may be stripped out of the supplied water by in-home filters. Alternatively, the use of water softeners which effectively treat for calcium (hardness), can add sodium (salt), which may be a health consideration for some individuals.

In addition, filtering to lower levels than necessary to meet government standards is likely to be more costly to the consumer, either through the purchase of a larger or higher-end filter type or through maintenance of the filter's service at a heightened level. For example, for some purposes, cartridges are sold to remove very fine particles and will, resultantly, clog very quickly, requiring that they be changed much more frequently than the manufacturer's suggestion.

Aqua NC has a regulatory obligation to provide water that is compliant with regulatory standards, and to do so in the most cost-effective manner. The Company does, however, recognize that it is the customer's private option to treat their water to meet personal preferences beyond the Environmental Protection Agency ("EPA") established Maximum Contaminant Level (MCL) or secondary

Maximum Contaminant Level (sMCL) criteria and as enforced by the North Carolina Department of Environmental Quality (“DEQ”).

Complexities in Administration of a Discount Program

Three issues require careful thought:

1. Eligibility for Discount. Presumably, the interest is in providing an arranged discount with in-home filter vendors for those systems affected by iron and manganese. Aqua NC is not concerned with limiting any pre-arranged discount to a select group of customers who only meet a specific criteria (e.g., iron or manganese > its sMCL). Aqua NC’s investigation, however, has shown that many in-home vendors are franchisees with established geographic regions of service. Separate negotiations for discounts would be required to be conducted with each region’s applicable vendor where Aqua provides water service. A franchisee must be identified for each applicable service territory and a separate discount negotiated, which will be administratively cumbersome and likely result in inconsistent discounts being offered to customers in the varying franchisee regions.

2. Duration of Discount Eligibility. Similarly, the duration of the eligibility of a discount must be determined and published ahead of time, as for some customers, a purchase decision might depend on the persistence in duration of the period of discount. Additionally, Aqua NC would need to maintain the accuracy of its website and the information on it, including the nature and duration of a discount for each franchisee. This would require continued monitoring to update the franchisee list, contact information, discount offer, and duration of the offers.

3. Customer Disruption or Discrimination. If customers move in and out of eligibility---or if some customers are not in the service territory of a vendor with whom Aqua has affiliated---then the opportunity for customer complaints, confusion, and dissatisfaction are clear.

Update on Discussions with Potential Vendors

As reported in the Company's First 90-Day Response to Ordering Paragraph No. 17, filed on March 14, 2019, Aqua attempted to initiate contact with two name brand in-home filter franchisees. While one of these two franchisees was unresponsive, discussions were initiated and continue with another franchisee in an effort to determine whether a discount---at best modest---could be negotiated and available within their service territory.

Should the Commission desire to have Aqua continue this effort to investigate the possibility of entering into arrangements to provide for an in-home filter discount statewide, an additional franchisee covering each of Aqua's remaining service territories would need to be identified and separate discussions initiated.

Additional Response - Information to Customers

Aqua NC believes that its customers would benefit from the provision of increased information and awareness about home filtration products. This is consistent with Aqua NC President Shannon Becker's response to then-Commissioner [now Chair] Mitchell's question during the Sub 497 Rate Case Hearing (*Tr. Vol. 5, p. 145; September 11, 2018*) regarding provision of education or information surrounding a home filter choice. Aqua NC has initiated a project to

develop material for a Frequently Asked Questions article related to home filtration considerations; Aqua NC plans are to include this information on the Company's <http://www.ncwaterquality.com/> website this summer.

Aqua NC's Conclusions

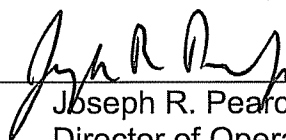
Aqua NC believes that the inquiry into this option has been useful and instructive, and fully respects the Commission's interest in exploring every opportunity to viably address water quality issues. Unfortunately, the Company has concluded at this point that the limitations and the concerns resulting from any such program, outside of providing customer education and awareness as discussed above, outweigh any potential benefits to customers.

The Company reiterates its very strong record of protecting customers from primary contaminants in drinking water that may affect health, using guidelines established by the EPA and as enforced by DEQ. The Company also continues to aggressively pursue its Water Quality Plan. This includes investing significant capital on large community well filters to address secondary aesthetic water quality concerns for entire water systems, in order to provide the best customer service. On an annual basis, Aqua NC expects to continue to install 10-15 manganese dioxide filters over the coming years to substantially address those systems with secondary water quality concerns driven by high levels of iron and manganese, along with enhanced operational focus and flushing to help address water quality concerns within these systems.

Recommendation and Request

Given the range and significance of Aqua NC's concerns and the obstacles to implementation of an effective, efficient discount program, Aqua NC respectfully requests that the Commission consider this investigation and evaluation to be complete and terminate this inquiry. Alternatively, the Company requests that the Commission convene a workshop, or technical conference, open to participation by interested parties and mediated by the Commission or a member of its staff.

Respectfully Submitted on Behalf of Aqua North Carolina, Inc.



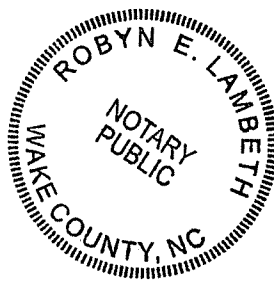
Joseph R. Pearce, Jr.
Director of Operations
Aqua North Carolina, Inc.

Sworn to and subscribed before me this
the 12th day of June 2019.



Notary Public

My Commission Expires: May 13, 2021



CERTIFICATE OF SERVICE

I hereby certify that on this 12th day of June 2019, a copy of the foregoing **AFFIDAVIT AND RESPONSE TO ORDERING PARAGRAPH NO. 17** of the NCUC Rate Case Order entered in Docket No. W-218, Sub 497 has been duly served upon all parties of record in Docket Nos. W-218, Subs 497 and 497A by electronic service, addressed as shown below:

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