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March 31, 2023

Ms. A. Shonta Dunston
Chief Clerk
North Carolina Utilities Commission
430 N. Salisbury Street, Room 5063
Raleigh, NC 27603

Via Electronic Submittal

Re: In the Matter of
Application by Aqua North Carolina, Inc. for Authority to Adjust and
Increase Rates and Charges for Water and Sewer Utility Service in All
Service Areas in North Carolina
Docket No. W-218, Sub 573
Settlement Testimony of Shannon V. Becker

Dear Ms. Dunston:

On behalf of Aqua North Carolina, Inc. ("Aqua"), I herewith provide for filing in the above referenced docket, Settlement Testimony of Shannon V. Becker.

Seventeen copies of same will be hand delivered to the Clerk's Office following this electronic transmittal.

If you should have any questions concerning this filing, please let me know. Thank you and your staff for your assistance.

Sincerely,
/s/ David T. Drooz
David T. Drooz
Attorney for
Aqua North Carolina, Inc.

pbb

A Pennsylvania Limited Liability Partnership

California Colorado Delaware District of Columbia Florida Georgia Illinois Minnesota Nevada
New Jersey New York North Carolina Pennsylvania South Carolina Texas Virginia Washington



Ms. A. Shonta Dunston
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Enclosures

Copy to: Parties and Counsel of Record
Elizabeth Culpepper, NC Public Staff
Heather Fennell, Commission - Legal
Jessica Heironimus, NC Public Staff
Lynn Jarvis, Commission - Legal
Megan Jost, NC Public Staff
Monica Webb-Shackleford, Commission – Legal

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Mar 31 2023

STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH

DOCKET NO. W-218, SUB 573

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

IN THE MATTER OF
APPLICATION BY AQUA NORTH CAROLINA, INC.,
202 MACKENAN COURT, CARY, NORTH CAROLINA 27511,
FOR AUTHORITY TO ADJUST AND INCREASE RATES FOR WATER
AND SEWER UTILITY SERVICE IN ALL SERVICE AREAS IN
NORTH CAROLINA

SETTLEMENT TESTIMONY OF
SHANNON V. BECKER
ON BEHALF OF
AQUA NORTH CAROLINA, INC.

March 31, 2023

I. INTRODUCTION

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Q. PLEASE STATE YOUR NAME, BUSINESS TITLE, AND BUSINESS ADDRESS.

A. My name is Shannon V. Becker and I am President of Aqua North Carolina, Inc. ("Aqua" or the "Company"). My business address is 202 MacKenan Court, Cary, North Carolina 27511.

Q. PLEASE PROVIDE A BRIEF DESCRIPTION OF YOUR BACKGROUND AND EXPERIENCE.

Q. I graduated from the State University of New York at Buffalo in 1993 with a Bachelor of Science degree in accounting. I received a CPA certification after joining Deloitte & Touche, LLP, where I led financial audits for public and private organizations. Since leaving public accounting, I have held management level positions at multiple Fortune 500 Companies in addition to being a small business owner in Raleigh, NC. In 2009, I joined Aqua as the State Controller and was named President of Aqua Virginia in April 2012. I was promoted to my current role as President of Aqua North Carolina in August 2016.

Q. DID YOU FILE DIRECT AND REBUTTAL TESTIMONY IN THIS PROCEEDING?

A. Yes, I did.

Q. WHAT IS THE PURPOSE OF YOUR SETTLEMENT TESTIMONY?

A: The purpose of my settlement testimony is to provide an overview of, and explain and support, the Stipulation of Partial Settlement ("Stipulation")

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reached with the Public Staff in this proceeding.

II. OVERVIEW OF STIPULATION

Q. PLEASE PROVIDE AN OVERVIEW OF THE STIPULATION OF PARTIAL SETTLEMENT.

A: Members from the Aqua and Public Staff teams have met regularly since the end of the evidentiary hearings with two missions: 1) propose mutually agreeable Performance Based Metrics (PBM's), and 2) identify those issues for which the Company and Public Staff might reach compromises for a partial settlement. After significant discussion, extensive reconciliation by the Company of capital project detail necessary to support the agreed-upon capital positions and projections throughout the Base Year and WSIP periods, along with extensive negotiations, the parties have accomplished both goals.

Pursuant to the evidentiary hearing and the Commission's guidance in the hearings, the Company and Public Staff worked together to develop PBM's recommended for inclusion in support of a WSIP and in accordance with the requirements of Rule R1-17A. The Stipulation provides for an agreed upon 13 PBMs with at least one proposed PBM related to operational compliance, customer service, service reliability, and workplace health and safety. These PBM's represent a combination of those proposed by the Company and the Public Staff in testimony as well as the addition of several other mutually agreeable metrics representative of the Company's operations. The parties agree that the proposed PBM's are clearly defined,

1 measurable, and easily verified by stakeholders.

2 Most of the agreed upon PBM's are tracking metrics while some include
3 proposed penalties or incentives based on attainment of certain established
4 targets or benchmarks to measure utility achievement. Of particular note is
5 that one of the performance metrics agreed upon by Aqua and the Public
6 Staff is that the Company will apply for State Revolving Fund grants for
7 several of its capital projects.

8 There were four additional PBMs proposed by the Public Staff related to the
9 completion of certain projected capital projects during the WSIP period,
10 Safe Drinking Water Act compliance, and Clean Water Act compliance.

11 Any performance metric incentives and/or penalties ultimately approved by
12 the Commission shall be retroactive to the beginning of Rate Year 1. In
13 addition, the Company will report its performance under these metrics as
14 provided in the WSIP Statute and Rules.

15 **Q. Please explain the Company's view of the four PBM's that were agreed**
16 **to but for tracking purposes only.**

17 **A.** First, regarding Safe Drinking Water Act compliance and Clean Water Act
18 compliance, the Company is certainly willing to track this as a metric. This
19 is a fairly standard metric for tracking purposes. The area of disagreement
20 involves what level of compliance the Company should be held to, at least
21 in this first WSIP rate case, that the PS is proposing and against which any
22 associated incentive or penalty would be calculated. Industry trends,
23 standards, or benchmarks have not been identified that would allow for the

1 establishment of a target that may be used as a consistent guide across the
2 industry representative of poor or strong utility operations if met, and the
3 parties submit that disagreement to the Commission for decision as an
4 unsettled issue.

5 Second, the Company and Public Staff are in disagreement with including
6 an incentive or penalty on the completion of certain projected capital
7 projects against their projected completion and estimated cost during the
8 WSIP period. The Company understands and appreciates that its duty is
9 management of capital projects in an efficient and cost effective manner. A
10 common theme throughout this case is the level of capital that is being
11 deployed to help serve customers. Managing a list of specific projects for
12 reporting purposes will become just that and it will no doubt change many
13 times based on permitting from other agencies, construction schedules,
14 weather, supply chain, vendor availability and a myriad of other issues that
15 will affect project costs and completion dates. Placing a disincentive on the
16 WSIP plan related to the timing and cost of WSIP capital projects will require
17 the Company to modify its bidding and contract terms that may result in an
18 overall increase in estimates received from contractors and negatively
19 affect the customers through higher project costing.

20 **Q. PLEASE HIGHLIGHT AN OVERARCHING KEY BENEFIT FOR**
21 **CUSTOMERS AS PART OF THE STIPULATION?**

22 A. Aqua has agreed that 100% of all earnings above the authorized ROE
23 would be returned to its customers as part of the Annual Review process.

1 At the same time, there is no true-up to reimburse Aqua when its earnings
2 are below the authorized ROE. This is a significant benefit to customers to
3 ensure that the Company will not receive any potential over earnings during
4 the life of the multi-year rate plan.

5 Rule R1-17A(c)(9) and (e) requires that High and Low bands for earned
6 rates of return on equity be included with a request for a WSIP on each Rate
7 Year revenue requirement. Rule R1-17A(i) further provides for a credit to
8 be issued to applicable utility customers "if the Annual Review determines
9 that the utility earned higher than the authorized high band rate of return on
10 equity for a Rate Year." The Company's application proposed the use of a
11 High and Low band using plus/minus 100 basis points from the Commission
12 authorized rate of return on equity for a Rate Year. The Public Staff, in their
13 direct testimony, proposed the use of a High and Low band using
14 plus/minus 50 basis points from the Commission authorized rate of return
15 on equity for a Rate Year. In an effort to promote settlement and provide
16 additional customer benefits, Aqua has offered, and the Public Staff has
17 agreed, to utilize a "high" banding limit of zero (0) basis points above the
18 Commission authorized return on equity in this case, with a low band of 50
19 basis points below the Commission authorized return on equity. Aqua's
20 agreement to use a High band of 0 basis points means that 100% of all
21 earnings above the authorized ROE would be returned to its customers as
22 part of the Annual Review process. At the same time, there is no true-up to
23 reimburse Aqua when its earnings are below the authorized ROE.

1 Q. PLEASE DISCUSS OTHER CUSTOMER BENEFITS FLOWING FROM
2 THE STIPULATON.

3 A. The agreed-upon PBM's along with the periodic reporting requirements will
4 significantly increase the visibility and transparency into the Company's
5 operations. The Company will quarterly report its earnings (along with the
6 status of its capital improvement plan and disconnections). The Company
7 will also file annual reports consistent with the WSIP Statute and Rules and
8 the annual review process.

9 Furthermore, the Company and Public staff came to agreement on rate
10 design intended to allow customers more control of their monthly bills
11 through increased allocation of costs on the consumption component of rate
12 design. Specifically, the Public Staff and Aqua agreed to the following
13 general rate designs:

14 A. Fixed/Volumetric Rate Design. The Stipulating Parties agree that
15 rate design in this case should be based on a 35/65 ratio of
16 fixed/volumetric (or base/usage) revenues for water service rates.
17 The Stipulating Parties further agree that rate design in this case
18 should be based on a 60/40 ratio of fixed/volumetric (or base/usage)
19 revenues for metered sewer service rates. Unmetered residential
20 sewer rates should remain flat.

21 B. Rate Design for Huntley Glen, Park South, and Parkway Crossing.
22 The Stipulating Parties agree that rates for the Huntley Glen, Park
23 South, and Parkway Crossing systems should be based on the base

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charge for metered sewer service agreed to by the Stipulating Parties in Subsection A above, plus the Charlotte Water sewer usage rate, and that this rate design will produce rates that are just and reasonable as a compromise for settlement purposes.

As part of the Stipulation, Aqua withdraws its request to consolidate all of its City of Charlotte purchased sewer pass-through customers (including, but not limited to, the customers in Huntley Glen, Park South, and Parkway Crossing subdivisions) described in witness Haddad's Direct testimony on pages 9 and 10. The Stipulation agreement to increase the variable component of the sewer rate design ratio from 80/20 to 60/40 effectively addresses the issue that Aqua's initial recommendation to consolidate these customers was intended to correct.

Q. PLEASE HIGHLIGHT OTHER AREAS OF SETTLEMENT.

- A. The Stipulation also includes mutual agreement on the following:
- Agreement on the three Rate Year start dates.
 - The dates of the three-year term of the WSIP period.
 - The O&M adjustments according to the Public Staff Settlement Exhibit 1, and further discussed in the Joint Settlement testimony of Dean R. Gearhart and David Haddad
 - Capital structure and Cost of Debt
 - Regulatory Commission Expense as further discussed in the Joint Settlement testimony of Dean R. Gearhart and David Haddad

- 1
- ROE banding as discussed in the Q&A above
- 2
- Performance Based Metrics as discussed in the above
- 3
- Certain quarterly accounting reporting requirements requested by
- 4
- the Public Staff related to bridge year capital included in rate Year 1
- 5
- Continuance of the Semi-Annual Water Quality report throughout the
- 6
- WSIP**
- 7
- Agreement to provide for the Public Staff's subsequent review of
- 8
- certain rate base items as identified in Exhibit attached to the Joint
- 9
- Settlement testimony of Dean R. Gearhart and David Haddad.
- 10
- The Company agrees to a WSIP implementation audit performed by
- 11
- a 3rd party for compliance with the multi-year rate plan reporting
- 12
- requirements as described in the stipulation
- 13
- The Company will file its 2018 Affiliate Agreement for informational
- 14
- purposes in Docket No. W-218, Sub 570.
- 15
- The Company will provide a semi-annual report on the efforts to
- 16
- reduce Pittsboro purchased water rates as described in the
- 17
- Stipulation. The first report will be due on the last business day of
- 18
- the month-end following six months after the Final Rate Order date.
- 19
- Implementation of Aqua's proposed Sewer Use Rule documented in
- 20
- Witness Becker's Direct as Becker Exhibit 3 and adjusted for the
- 21
- clarification described on page 41, lines 4 - 11 of witness Darden's
- 22
- Direct testimony.
- 23
- The parties agree that Aqua's water and wastewater systems are

1 generally in compliance with federal and state regulations, testing
2 requirements, and primary water quality standards, and they appear
3 to be providing adequate quality service

4 **Q. DOES THE SETTLEMENT WAIVE ANY OF THE PROVISIONS OF THE**
5 **WSIP STATUTE OR WSIP RULES?**

6 A. No, it does not, though the first WSIP quarterly report will not be due until
7 the same date as the second quarterly report, due to the rate case timing.

8 **Q. WHAT ISSUES WERE NOT AGREED TO BY THE COMPANY AND THE**
9 **PUBLIC STAFF?**

10 A. These issues remain in dispute and are left for resolution by the
11 Commission.

- 12 • The appropriate rate of return on equity
- 13 • Recovery of costs incurred or planned to be incurred as part of
14 Aqua's Capital Investment Plan for treatment of PFAS
- 15 • Recovery of costs incurred or planned to be incurred as part of
16 Aqua's Capital Investment Plan for the Service Improvement Plan
17 (SIP) and related projects.
- 18 • Penalties for PBMs on (i) timely completion of WSIP capital projects,
19 (ii) completion of WSIP capital projects on budget, (iii) Safe Drinking
20 Water Act compliance, and (iv) Clean Water Act compliance
- 21 • While Aqua and the Public Staff appear to agree on the adequacy of
22 Aqua's Customer Service/Public Witness Hearings, the parties are
23 filing separate positions.

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- Conservation Pilot Program
- Customer Assistance Program
- Adjustment to Wakefield Filter Project

III. PUBLIC INTEREST

Q. IN YOUR OPINION, IS THE STIPULATION REASONABLE AND IN THE PUBLIC INTEREST?

A. Yes, it is. The Stipulation will provide the benefits of a multi-year rate plan to customers and the Company – specifically rate predictability and certainty during the term of the WSIP, an extraordinary credit to customers for any and all earnings above the authorized ROE, administrative efficiency as a result of fewer rate cases, greater regulatory reporting and additional insight into the Company’s longer-term investments and costs, and a higher level of regulatory oversight. The Stipulation is a product of arms-length negotiation between the Company and the Public Staff, represents numerous compromises by both parties, and results in a reasonable multi-year rate plan.

While there are still contested issues, the Stipulation itself promotes rates that are fair both to the customer and to Aqua, reasonably ensures the continuation of safe and reliable utility services by Aqua, will not result in sudden substantial rate increases to customers annually or over the term of the plan, is representative of Aqua’s operations over the plan term, and is otherwise consistent with the public interest.

Q. PLEASE IDENTIFY SOME OF THE COMPROMISES MADE BY THE

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COMPANY.

A. The Company included compromises in overall revenue requirements to be authorized through reductions in recovery of various O&M expenses and exclusion of certain capital items from rate base; reduction in the Rate Year 1 escalation rate; compromises to increase the variable components of both water and sewer rate design providing less revenue assurance; utilization of a zero upper rate band to minimize any potential of over-earning while increasing potential for a customer credit; acceptance of significantly increased administrative and reporting requirements; and retaining potential and additional performance metrics. While Aqua continues to believe in the merits of its original position on many issues, the compromises in the Stipulation will serve the public interest and provide Aqua with an acceptable outcome to the case with respect to those issues.

Q. WHAT IS YOUR RECOMMENDATION TO THE COMMISSION WITH THE RESPECT TO THE SETTLEMENT AGREEMENT?

A. I respectfully recommend that the Commission approve the Stipulation in its entirety.

Q. IS THIS TESTIMONY TRUE AND ACCURATE TO THE BEST OF YOUR KNOWLEDGE, INFORMATION, AND BELIEF?

A. Yes, it is.

Q. DOES THIS CONCLUDE YOUR PREPARED SETTLEMENT TESTIMONY?

A. Yes, it does.

CERTIFICATE OF SERVICE

It is hereby certified that the foregoing Settlement Testimony of Shannon V. Becker, filed on behalf of Aqua North Carolina, Inc., has been this day served upon each of the parties and counsel of record in this proceeding and members of the North Carolina Public Staff by e-mail / electronic transmission or by deposit of same in the U. S. Mail, postage prepaid.

This 31st day of March, 2023.

By: /s/ David T. Drooz

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