

# OFFICIAL COPY

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PLACE: Dobbs Building, Raleigh, North Carolina  
DATE: Tuesday, October 16, 2018  
TIME: 2:31 p.m. - 5:01 p.m.  
DOCKET NO.: W-354, Sub 360  
BEFORE: Chairman Edward S. Finley, Jr., Presiding  
Commissioner ToNola D. Brown-Bland  
Commissioner Jerry C. Dockham  
Commissioner James G. Patterson  
Commissioner Lyons Gray  
Commissioner Daniel G. Clodfelter  
Commissioner Charlotte A. Mitchell

IN THE MATTER OF:

Application by

Carolina Water Service, Inc. of North Carolina,  
4944 Parkway Plaza Boulevard, Suite 375,  
Charlotte, North Carolina 28217

for Authority to Adjust and Increase Rates  
for Water and Sewer Utility Service in

All of Its Service Areas in North Carolina, Except  
Corolla Light and Monteray Shores Service Area

VOLUME: 8

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

CHAIRMAN FINLEY: All right. Let's go back on the record, please, and let's see if there are questions by the Commission of Ms. Casselberry. Commissioner Patterson?

GINA CASSELBERRY,

having previously been duly sworn, was examined and testified as follows:

EXAMINATION BY COMMISSIONER PATTERSON:

Q. I just have one question. It's sort of a curiosity. You mentioned that having water rate attached to consumption and to the basic charge reduces consumption -- has a tendency to reduce consumption or encourages conservation.

Are there any studies that you can point to that show that?

A. I have no studies that show that, no. But there probably are studies out there, but I'm not able to direct you to a specific study.

Q. Thank you.

EXAMINATION BY CHAIRMAN FINLEY:

Q. Ms. Casselberry, I'll ask you some questions about the consumption adjustment mechanism.

I believe I heard you to say, on your

1 testimony this morning, that you had a suspicion that  
2 perhaps some of the old meters that the Company has may  
3 not be registering accurately?

4 A. Yes. Typically, when a meter gets old, they  
5 start slowing down, so they would not pick up all the  
6 consumption. So it would get -- it would reduce the  
7 overall consumption.

8 Q. You haven't done any study to determine  
9 whether, in fact, that's the case, have you?

10 A. I can -- I know there are studies out there,  
11 and it's pretty common knowledge that, when meters get  
12 older, they slow down. They don't speed up when they  
13 get old. And so, like I said, a lot of their meters  
14 are really old, so it could be that the reason  
15 consumption is going down is -- and part of the problem  
16 is that their meters are very old.

17 Q. But you haven't done a study of this company  
18 to determine --

19 A. No.

20 Q. -- whether the meters are running slow?

21 You are aware of the talk within the industry  
22 that, when people replace shower heads, and toilets,  
23 and hot water heaters, and dishwashers, and that type  
24 of thing, the appliances typically use less water than



1 the older versions do?

2 A. Yes, I understand that. But I think these  
3 appliances have been out on the market for quite some  
4 time, and a lot of people have already replaced them.  
5 And so, you know, I would think that consumption, you  
6 know, has gone down, and at some point we're going to  
7 level out. But, you know, I agree that, you know,  
8 appliances are better in conservation than they used to  
9 be. But it's not like they just came out on the  
10 market. They've been on the market for quite some  
11 time.

12 Q. But people -- as people have houses and they  
13 replace those appliances --

14 A. Correct.

15 Q. -- in their homes, even though they've been  
16 out a while, it's when they use those appliances within  
17 their homes that it shows up on the consumption, the  
18 water use?

19 A. Well, that's true. But, you know, appliances  
20 nowadays, you're lucky if you get five years out of  
21 them. So these have been on the market for 10 years  
22 or. So I would imagine a lot of people have, you know,  
23 already replaced a lot of their appliances with the  
24 appliances now that are a lot more energy efficient.

1 Now, I don't have a study to prove that, but I just  
2 know, in my household, I've been through two  
3 dishwashers in the last seven years, and they seem to  
4 last about three years, and there it goes. Same thing  
5 with the washing machine. And they have been out on  
6 the market for some time. So I would say that could be  
7 the correct maybe eight years ago as to why consumption  
8 is going down, but, you know, I feel that it's probably  
9 more of a meter issue than replacing new appliances.

10 Q. When you replaced your washing machine, do  
11 you know whether or not you used less water with the  
12 current version versus the old ones?

13 A. Correct.

14 Q. You do not know, or do you know?

15 A. I realize that, and all I'm saying is I do  
16 know that they've been on the market for some time.  
17 And in my household, you know, seems like they last  
18 about five, six years, and we replace them. So I am  
19 making the assumption that a lot of people that have  
20 already purchased these new appliances and that they  
21 are already in effect, as far as the consumption right  
22 now.

23 Q. You indicated that, because of the changes  
24 that the Company had made with respect to uniform rates

1 and dividing it into various sections of the state,  
2 that it would be difficult to do a study to determine  
3 whether or not consumption has been reduced; did I hear  
4 you correctly about that?

5 A. Well, not exactly. What I said is that we  
6 don't have all the historical data yet. We have 2016  
7 and 2017, as far as making that comparison. And, you  
8 know, another year or two and then we could, you know,  
9 see what the trend is. And, you know, I'm not saying  
10 that the trend isn't going down, but at some point in  
11 time, the trend may level off. That might be 2018, may  
12 be 2019 it might level off, and so they might hit a  
13 level where the consumption has levelled off. And so  
14 if we had a couple more years of historical data, we  
15 could make that determination. But right now, two  
16 years I don't think is enough, because of the rate  
17 increase and that part of the reduction in consumption  
18 could be due to that the uniform rates went up  
19 significantly for residential customers.

20 You know, the other thing is Connestee Falls,  
21 Fairfield Sapphire Valley, Fairfield Mountain, they use  
22 50 percent less than the average consumption for just  
23 straight residential customers. So another year or two  
24 of data would give us a better idea as to what that

1 trend would be.

2 Q. Well, if the Commission were to decide to  
3 approve a consumption adjustment mechanism and the  
4 consumption did level off, it just wouldn't -- the  
5 mechanism would work so that it wouldn't change the  
6 rates?

7 A. That's correct.

8 Q. No harm, no foul, right?

9 A. That's correct.

10 Q. Well, let me ask you, you have done billing  
11 analyses on these various Carolina Water Service and  
12 the other affiliates that are now sort of combined into  
13 one in past cases, have you not?

14 A. Yes.

15 Q. Could you not look at those billing analyses  
16 to determine whether consumption has declined?

17 A. Yes. I have done that for 2016 and 2017.

18 Q. What about earlier years, comparing '16 and  
19 '17 to earlier years --

20 A. Well --

21 Q. -- based on what you have done in the rate  
22 cases in those prior cases?

23 A. Well, the average consumption for uniform  
24 rates in the last rate case was 4,391 gallons per

1 customer, and in this case, it's 3,946, so it has gone  
2 down a little bit. Now, that's just for residential  
3 customers. If you throw in all of the customers, that  
4 would be all of the seasonal customers, some of the  
5 purchase water customers, the average consumption is  
6 \$3,941 [sic], so there is somewhat of a difference when  
7 you throw in those seasonal customers, because they  
8 don't use as much water in the wintertime. And it did  
9 go down to 3,673 gallons in this next rate case, which  
10 is pretty consistent. And it's -- the difference is  
11 what you would expect, so -- from one year to the next,  
12 as far as if you compare the uniform rates for  
13 residential with total uniform rate customers.

14 So the consumption is going down, but they  
15 had a huge rate increase, and so, you know, that, I  
16 would imagine, played into effect as to why the  
17 consumption is going down is some of these service  
18 areas, you know, had, you know, 50, 60, 70 percent  
19 increases would be consolidated rates.

20 So it would be interesting to see what  
21 happens at the end of 2018 as to whether or not the  
22 consumption is stabling out or if it's still continuing  
23 to go down.

24 Q. Would you be able to compile an exhibit to

1 present to us that shows how the average consumption  
2 per customer per month in this case compares to the  
3 average consumption per customer per month in recent  
4 CWSNC rate cases?

5 A. Yes, I could.

6 Q. All right. If you would do that, we would  
7 appreciate it.

8 I think it was the Raleigh customer hearing  
9 where a gentleman, I forget the subdivision, but he was  
10 in a water-only subdivision, and he said his rates had  
11 gone up astronomically -- I don't remember exactly what  
12 the percentage was -- which was certainly inconsistent  
13 with the average increase that the Company was giving.

14 Do you recall that testimony?

15 A. I don't recall that specific.

16 Q. I was just wondering if there was some  
17 explanation as to -- maybe the Company can address that  
18 in its --

19 MS. SANFORD: We're investigating it.

20 THE WITNESS: Without more specifics,  
21 I'm not really sure which customer you're referring  
22 to.

23 BY CHAIRMAN FINLEY:

24 Q. Well, I can't remember the subdivision.

1 A. Or the subdivision.

2 Q. I think it was Jordan Woods.

3 A. Well, Jordan Woods would be uniform -- under  
4 uniform rates. And prior to that consolidation, he was  
5 a Clearwater system. But, you know, his rates went up  
6 just like everybody else for uniform rate customers,  
7 so -- and I don't recall what the increase was in the  
8 last rate case, but, you know, they did go up, you  
9 know, significantly when they consolidated, so.

10 Q. I think his testimony was that they got the  
11 full increase that they requested, is my recollection  
12 of his testimony. So we'll look into that and see what  
13 the situation is.

14 CHAIRMAN FINLEY: Other questions?

15 EXAMINATION BY COMMISSIONER BROWN-BLAND:

16 Q. Ms. Casselberry, speaking on behalf of  
17 yourself and the Public Staff, can you say that you've  
18 seen an impact in the -- in both the number and the  
19 tenor of the customer complaints since CWS brought on  
20 board the communications coordinator? Are you able to  
21 say?

22 A. Well, the Public Staff really, outside of a  
23 rate case, doesn't really get any complaints. So the  
24 only complaints we get is in the rate case. And the

1 number of complaints that we got in this rate case was  
2 less than the last rate case. Of course, you know, it  
3 was a little different because we were consolidating,  
4 there was a lot of confusion. In this last rate case,  
5 though, some of the complaints were that they were  
6 confused about what was going on. But, like, we don't  
7 really get that many complaints outside of a rate case,  
8 so I couldn't really say whether it's more or less,  
9 because, you know, we get so very few.

10 Q. All right. And I believe, in this rate case,  
11 you testified that the service provided is good?

12 A. Right.

13 Q. And previously you've testified that it was  
14 adequate?

15 A. Right.

16 Q. Is the Commission to take away from that that  
17 that is a signal by you and the Public Staff that there  
18 has been improvement?

19 A. Yes. And I base that on the number of  
20 complaints that we got, you know, for the rate case,  
21 and we got significantly less than we did in the last  
22 rate case. Also by customer testimony that, you know,  
23 the Company has made an effort to get up with the  
24 homeowners' associations, and they've done better as



1 far as their boiler notices and things like that. So I  
2 do think it's improving.

3 And just talking to customers after the  
4 hearing, you know, they say that the service is  
5 improving and, you know, they have a better  
6 communications with the Company. So I do think they've  
7 made efforts, in that area, and that it is improving,  
8 and overall, it's good. Considering they got 30,000,  
9 50,000 customers, and we get so few complaints, I would  
10 have to assume it would be -- if the service was poor,  
11 then we'd get a lot more complaints.

12 Q. Have you -- so the comments that you do  
13 receive from customers, would it be fair or correct to  
14 say they have been of a more positive tenor or nature  
15 than at some times in the past?

16 A. Yes, I would have to say that. I mean, a lot  
17 more of them were positive than in the past. Most of  
18 the ones that we got this time around was the bang to  
19 do the increase, and there were very few service  
20 complaints, billing complaints. So I have to assume  
21 that it must be getting better based on the number of  
22 complaints, and just the feedback that we've gotten at  
23 customer hearings.

24 Q. Do you have any opinion or anything to add

1 with regard to the public witness testimony that we  
2 heard from the Fairfield Harbor customers?

3 A. In regards to?

4 Q. Well, do you have -- as I recall, they were a  
5 set of customers that still had some water quality  
6 issues.

7 Do you have anything to add about what they  
8 testified to?

9 A. Yes. You know, in my testimony, and going  
10 back through the history of whether or not they should  
11 have a community water softener, and I also made a  
12 recommendation that, you know, being that most of the  
13 customers already have a water softener and/or filters,  
14 that we don't think it's prudent to put in a community  
15 water system.

16 And, you know, I did see the filter at the  
17 one hearing, and it appeared to me that the filter was  
18 doing what it's supposed to do, and the water looked,  
19 you know, fairly -- quite clear compared to other  
20 systems that, you know, the filter system isn't working  
21 in. You know, I'm not saying the water is perfect, but  
22 it was doing what it was supposed to do. And like I  
23 said, most of those customers have a filter system, two  
24 filter systems, water softeners, and so to spend half

1 a -- a million dollars on a centralized system, you  
2 know, I don't think would be a prudent thing to do,  
3 which is what we came up with several years ago, the  
4 same -- and the homeowners' association or the board,  
5 they, kind of, drew the same conclusion.

6 Q. All right. Thank you.

7 A. Uh-huh.

8 CHAIRMAN FINLEY: Any other questions  
9 from the Commission?

10 (No response.)

11 CHAIRMAN FINLEY: All right. Questions  
12 on the Commission's questions.

13 MS. SANFORD: One, please.

14 RE-CROSS EXAMINATION BY MS. SANFORD:

15 Q. Ms. Casselberry, one question. As part of  
16 your colloquy with the Commission about consumption,  
17 you were discussing conservation.

18 Are you aware that Carolina Water is --  
19 expresses its water conservation ethic by being a U.S.  
20 EPA WaterSense partner; are you familiar with that  
21 program?

22 A. No.

23 MS. SANFORD: Okay. Thank you. No  
24 questions.

1 CHAIRMAN FINLEY: All right. Thank you,  
2 Ms. Casselberry. We will receive her 23 exhibits  
3 into evidence.

4 (Casselberry Exhibit Numbers 1 through  
5 23 were received into evidence.)

6 MS. SANFORD: Chairman Finley, if I  
7 might take care of a housekeeping matter. From an  
8 earlier entry of exhibits for Debra Clark, there is  
9 an Exhibit 3 which exists on pages 16 through 25 of  
10 her testimony. And I don't think I need to give  
11 this to anybody, but I can if you want to.

12 COMMISSIONER BROWN-BLAND: I think that  
13 was an appendix.

14 CHAIRMAN FINLEY: That was Appendix 3.

15 MS. SANFORD: Appendix 3, yeah.

16 CHAIRMAN FINLEY: Are you offering that  
17 into evidence?

18 MS. SANFORD: Yes, sir.

19 CHAIRMAN FINLEY: As marked, it shall be  
20 admitted.

21 (Clark Appendix Number 3, Exhibit  
22 Numbers B1 through B8 were admitted into  
23 evidence.)

24 CHAIRMAN FINLEY: All right. Public

1 Staff, call your next witness.

2 MS. HOLT: Public Staff calls as a  
3 panel, Windley Henry, Sonja Johnson, and  
4 Michelle Boswell.

5 WINDLEY HENRY, SONJA JOHNSON, and MICHELLE BOSWELL,  
6 having first been duly sworn, were examined  
7 and testified as follows:

8 DIRECT EXAMINATION BY MS. HOLT:

9 Q. Let's start with you, Mr. Henry. First,  
10 please state your name, business address, and position  
11 for the record.

12 CHAIRMAN FINLEY: Pull the mic up there,  
13 Ms. Holt, please.

14 MS. HOLT: Sorry.

15 THE WITNESS: My name is Windley Henry.  
16 Business address is 430 North Salisbury Street,  
17 Raleigh, North Carolina. I'm the accounting  
18 manager with the Public Staff, water and  
19 communications section.

20 BY MS. HOLT:

21 Q. Mr. Henry, are you familiar with the  
22 testimony filed in this docket by Lynn Feasel on  
23 October 3, 2018?

24 A. (Windley Henry) Yes, I am.

1 Q. Also consisting of 26 pages, and one exhibit,  
2 and several schedules?

3 A. Yes.

4 Q. And do you agree with that testimony?

5 A. Yes, I do.

6 Q. And do you now adopt that testimony as  
7 representing your position and that of the Public Staff  
8 in this case?

9 A. Yes.

10 MS. HOLT: Chairman Finley, I request  
11 that the adopted testimony of Lynn Feasel  
12 consisting of 26 pages, one -- be copied into the  
13 record as if given orally from the stand, and that  
14 her exhibit and schedules be identified as  
15 premarked.

16 CHAIRMAN FINLEY: All right.  
17 Ms. Feasel's direct testimony, adopted on behalf of  
18 witness Henry, consisting of 26 pages of  
19 October 4, 2018, is copied into the record as if  
20 given orally from the stand, and the exhibits  
21 accompanying that testimony are marked for  
22 identification as premarked in the filing.

23 MS. HOLT: Thank you.

24 (Feasel Exhibit Number 1, adopted by

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Windley Henry, was marked for  
identification.)  
(Whereupon, the prefiled direct  
testimony of Lynn Feasel, adopted by  
Windley Henry, was copied into the  
record as if given orally from the  
stand.)

0024

**FILED**

OCT 04 REC'D

**CAROLINA WATER SERVICE, INC. OF NORTH CAROLINA** Clerk's Office  
**DOCKET NO. W-354, SUB 360**

N.C. Utilities Commission

**TESTIMONY OF LYNN FEASEL  
ON BEHALF OF THE PUBLIC STAFF  
NORTH CAROLINA UTILITIES COMMISSION**

October 3, 2018

1 Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND  
2 PRESENT POSITION.

3 A. My name is Lynn Feasel and my business address is 430 N.  
4 Salisbury Street, Raleigh, North Carolina. I am a Staff Accountant  
5 with the Accounting Division of the Public Staff – North Carolina  
6 Utilities Commission, and represent the using and consuming public.

7 Q. HOW LONG HAVE YOU BEEN EMPLOYED BY THE PUBLIC  
8 STAFF?

9 A. I have been employed by the Public Staff since November 6, 2016.

10 Q. WILL YOU STATE BRIEFLY YOUR EDUCATION AND  
11 EXPERIENCE?

12 A. I am a graduate of Baldwin Wallace University with a Master of  
13 Business Administration degree in Accounting. I am a Certified  
14 Public Accountant licensed in the State of North Carolina. Prior to  
15 joining the Public Staff, I was employed by Franklin International in  
16 Columbus, Ohio until June 2013. Additionally, I worked for ABB Inc.  
17 from September 2013 until October 2016. I joined the Public Staff as  
18 a staff accountant in November 2016. Since joining the Public Staff,



1 I have filed an affidavit in a general rate case, updated earnings  
2 reports for Carolina Water Service, Inc. of North Carolina and Aqua  
3 North Carolina, Inc., calculated refunds to consumers from AH4R  
4 and Progress Residential, and reviewed franchise and contiguous  
5 filings for multiple companies.

6 **Q. WHAT ARE YOUR DUTIES?**

7 A. I am responsible for analyzing testimony, exhibits, and other data  
8 presented by parties before this Commission. I also have the further  
9 responsibility of performing the examinations of books and any other  
10 data and data request responses provided by public utilities in  
11 proceedings before the Commission, and summarizing the results  
12 into testimony and exhibits for presentation to the Commission.

13 **Q. MS. FEASEL, WHAT IS THE NATURE OF THE APPLICATION IN**  
14 **THIS PROCEEDING?**

15 A. On April 27, 2018, Carolina Water Service, Inc. of North Carolina  
16 (CWSNC or Company) filed an application with the Commission  
17 seeking authority to adjust and increase rates for water and sewer  
18 service in all of its service areas in North Carolina, with the exception  
19 of the Corolla Light/Monteray Shores service area. My investigation  
20 included a review of the application filed by CWSNC, an examination  
21 of the Company's books and records for the test year, and a review  
22 of additional documentation provided by the Company in response  
23 to written and verbal data requests.

1 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS  
2 PROCEEDING?

3 A. The purpose of my testimony in this proceeding is to present the  
4 results of my investigation of the levels of revenue, expenses, and  
5 investment filed by CWSNC in support of its requested increase in  
6 operating revenues for its uniform water operations (CWSNC Water),  
7 uniform sewer operations (CWSNC Sewer), Bradfield Farms and  
8 Fairfield Harbour water operations (BF/FH Water), and Bradfield  
9 Farms and Fairfield Harbour sewer operations (BF/FH Sewer).

10 Q. WOULD YOU BRIEFLY DESCRIBE THE PRESENTATION OF  
11 YOUR TESTIMONY AND EXHIBITS?

12 A. Yes. My testimony contains a discussion of each issue resulting from  
13 my investigation, and my exhibit consists of schedules showing the  
14 calculation of my adjustments to revenues, expenses, and rate base.  
15 My schedules also reflect adjustments recommended by other Public  
16 Staff witnesses. Schedules 1(a) through 1(d) of my Exhibit I present  
17 the return on original cost rate base for water and sewer operations  
18 under present rates, Company proposed rates, and Public Staff  
19 recommended rates. Schedules 2(a) through 2(d) of Exhibit I, along  
20 with their supporting schedules, present the original cost rate base  
21 for water and sewer operations. Schedules 3(a) through 3(d) of  
22 Exhibit I, along with their supporting schedules, present the

1 calculation of net operating income for a return under present rates,  
2 Company proposed rates, and Public Staff recommended rates.

3 **Q. WHAT MODIFICATIONS TO THE TEST PERIOD HAVE YOU**  
4 **MADE IN THIS PROCEEDING?**

5 A. In its application, CWSNC made pro forma adjustments to rate base  
6 to include construction work in progress (CWIP) projects, net of  
7 retirements, which will be placed in service between January 1, 2018,  
8 and the hearing date in this proceeding. The Public Staff agrees with  
9 the Company that the test year should be updated for certain events  
10 that occurred after the test year. Those events, however, should be  
11 known and measurable as of a certain date before they should be  
12 considered in evaluating the need for rate relief. Therefore, the  
13 Public Staff witnesses have made adjustments in this proceeding to  
14 update the Company's test year to recognize certain events affecting  
15 rate base, revenues, and expenses as a result of certain known and  
16 measurable events that occurred through June 30, 2018.

17 As part of this overall update adjustment, I have made adjustments  
18 to recognize changes to plant in service, accumulated depreciation,  
19 contributions in aid of construction (CIAC), purchase acquisition  
20 adjustment (PAA), and to also recognize other rate base changes  
21 that occurred through June 30, 2018. Deferred charges have been  
22 amortized through December 31, 2018.

1 Several major CWIP projects that were completed and placed in  
2 service as of August 24, 2018 have been included in rate base.

3 In addition, I have removed from rate base, revenue and expenses  
4 amounts related to Riverbend Estates Water System (Riverbend).  
5 CWSNC is only the emergency operator for the Riverbend system,  
6 and, therefore, rate base, revenues and expenses related to  
7 operating this system should not be included in CWSNC's general  
8 rate case.

9 **Q. WHAT ARE THE COMPANY'S PROPOSED INCREASES IN**  
10 **SERVICE REVENUES IN THIS CASE?**

11 A. The service revenues under present rates, the Company's proposed  
12 increases, and the Company's proposed rates are as follows: service  
13 revenues for CWSNC Water, CWSNC Sewer, BF/FH Water, and  
14 BF/FH Sewer under present rates are \$16,931,032, \$12,685,778,  
15 \$1,043,134, and \$1,769,755, respectively. Service revenues for  
16 CWSNC Water, CWSNC Sewer, BF/FH Water and BF/FH Sewer  
17 under proposed rates are \$19,432,356, \$13,696,365, \$1,560,921,  
18 and \$2,163,100 respectively. The proposed increase for CWSNC  
19 Water, CWSNC Sewer, BF/FH Water and BF/FH Sewer are  
20 \$2,501,324, \$1,010,587, \$517,787, and \$393,345 respectively.  
21

1 Q. WHAT CONCLUSIONS HAVE YOU REACHED AS TO THE  
2 COMPANY'S RATE INCREASE REQUEST?

3 A. Based on my investigation, the original cost rate base as of  
4 December 31, 2017, updated to June 30, 2018, is as follows: the total  
5 rate bases for CWSNC Water, CWSNC Sewer, BF/FH Water and  
6 BF/FH Sewer are \$60,564,774, \$43,212,818, \$3,469,658 and  
7 \$7,196,570 respectively.

8 Based on the overall rate of return of 7.37% recommended by Public  
9 Staff witness Hinton, I recommend that rates be set to produce the  
10 following revenues: service revenues for CWSNC Water, CWSNC  
11 Sewer, BF/FH Water, and BF/FH Sewer under recommended rates  
12 are \$16,936,425, \$12,501,581, \$1,295,374, and \$2,052,488  
13 respectively. Other revenues for CWSNC Water, CWSNC Sewer,  
14 BF/FH Water and BF/FH Sewer under recommended rates are  
15 \$91,008, \$35,863, \$27,718, and (\$15,170) respectively. The total  
16 recommended revenues for CWSNC Water, CWSNC Sewer, BF/FH  
17 Water and BF/FH Sewer are \$17,027,433, \$12,537,444, \$1,323,092,  
18 and \$2,037,318 respectively.

19 Based on these levels of revenues, I recommend the following  
20 increases/(decreases) in service revenues: the increase/(decrease)  
21 service revenues for CWSNC Water, CWSNC Sewer, BF/FH Water,  
22 and BF/FH Sewer are \$5,393, (\$184,197), \$252,240, and \$282,733  
23 respectively.

1 Q. DOES FEASEL EXHIBIT I REFLECT ADJUSTMENTS  
2 SUPPORTED BY OTHER PUBLIC STAFF WITNESSES?

3 A. Yes, my exhibit reflects the following adjustments supported by other  
4 Public Staff witnesses:

5 (1) The recommendations of Public Staff witness Casselberry  
6 regarding the following items:

- 7 (a) Service revenues at present rates;
- 8 (b) Service revenues at Company proposed rates;
- 9 (c) Purchased water;
- 10 (d) Purchased sewer;
- 11 (e) Maintenance and repair;
- 12 (f) Maintenance testing; and
- 13 (g) Chemicals.

14 (2) The recommendations of Public Staff witness Boswell  
15 regarding the following item:

- 16 (a) Excess deferred income tax.

17 (3) The recommendations of Public Staff witness Johnson  
18 regarding the following items:

- 19 (a) Salaries and wages;
- 20 (b) Pensions and benefits; and
- 21 (c) Payroll taxes.

22.

1 (4) The recommendations of Public Staff witness Hinton  
2 regarding the following items:

- 3 (a) Capital structure;  
4 (b) Embedded cost of long term debt; and  
5 (c) Return on common equity.

6 Q. **WHAT ADJUSTMENTS WILL YOU DISCUSS?**

7 A. The accounting and ratemaking adjustments that I will discuss relate  
8 to the following items:

- 9 (a) Plant in service;  
10 (b) Accumulated depreciation;  
11 (c) Cash working capital;  
12 (d) Contributions in aid of construction (CIAC);  
13 (e) Accumulated deferred income tax;  
14 (f) Customer deposits;  
15 (g) Gain on sale and flow back taxes;  
16 (h) Plant acquisition adjustment (PAA);  
17 (i) Excess book value;  
18 (j) Average tax accruals;  
19 (k) Regulatory liability for excess deferred taxes;  
20 (l) Deferred charges;  
21 (m) Pro forma plant;  
22 (n) Miscellaneous revenues;  
23 (o) Uncollectibles;  
24 (p) Purchased power;  
25 (q) Purchased water;  
26 (r) Maintenance and repair;  
27 (s) Meter reading;

- 1 (t) Transportation;
- 2 (u) Operating charge to plant;
- 3 (v) Outside service other;
- 4 (w) Office supplies and other office expense;
- 5 (x) Regulatory commission expense;
- 6 (y) Rent;
- 7 (z) Insurance;
- 8 (aa) Office utility;
- 9 (ab) Miscellaneous expense;
- 10 (ac) Depreciation expense;
- 11 (ad) Amortization of CIAC;
- 12 (ae) Amortization of PAA;
- 13 (af) Franchise and other taxes;
- 14 (ag) Property tax;
- 15 (ah) Regulatory fee;
- 16 (ai) State income tax; and
- 17 (aj) Federal income tax.

18

**PLANT IN SERVICE**

- 19 **Q. IN WHAT AREAS HAVE YOU MADE ADJUSTMENTS TO PLANT**  
20 **IN SERVICE?**
- 21 **A.** First, I made an adjustment to remove from direct plant in service,  
22 plant held for future use. Plant held for future use is not currently  
23 used or useful in providing service to CWSNC's water and sewer  
24 customers. This adjustment is consistent with similar treatment  
25 made by the Public Staff and ordered by the Commission in prior  
26 CWSNC rate cases.



1 Second, I adjusted both direct and allocated plant in service to  
2 include actual general ledger additions made on the Company's  
3 books from January 1, 2018 through June 30, 2018, the updated  
4 period for rate base items.

5 Third, direct plant in service was also adjusted to include actual costs  
6 for CWIP projects that have been completed and put in service as of  
7 August 24, 2018.

8 Fourth, I've removed both direct and allocated plant in service that is  
9 related to the Riverbend system, because CWSNC is only the  
10 emergency operator for this system and both revenue and expenses  
11 related to operating this system should not be included in CWSNC's  
12 general rate case.

13 Last, I have added to plant in service \$8,022 of outside services legal  
14 fees that should have been capitalized for access issues at the  
15 Brandywine Bay Facility. I removed these fees from outside services  
16 other expense and added them in plant in service.

17 **ACCUMULATED DEPRECIATION**

18 **Q. HOW HAVE YOU ADJUSTED ACCUMULATED DEPRECIATION?**

19 **A.** I adjusted accumulated depreciation to include actual and known  
20 additions made on the Company's books from January 1, 2018  
21 through June 30, 2018 for both direct and allocated accumulated

1 depreciation. Accumulated depreciation also reflects a matching  
2 adjustment based on the Public Staff's recommended level of  
3 depreciation expense.

4 In addition, I adjusted accumulated depreciation to include the  
5 amount calculated by the Public Staff related to the capitalized legal  
6 expense that was added to plant in service.

7 Last, I removed accumulated depreciation related to Riverbend for  
8 the same reason described above.

9 **CASH WORKING CAPITAL**

10 Q. PLEASE DESCRIBE YOUR CALCULATION OF CASH WORKING  
11 CAPITAL.

12 A. Cash working capital provides the Company with the funds  
13 necessary to carry on the day-to-day operations of the Company. In  
14 my calculation, I have included 1/8 of total adjusted Operating and  
15 Maintenance (O&M) and General and Administrative (G&A)  
16 expenses, less purchased water and sewer expense, as a measure  
17 of cash working capital.

18 **CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC)**

19 Q. PLEASE EXPLAIN YOUR ADJUSTMENTS TO CIAC.

20 A. CIAC has been adjusted to included actual and known additions  
21 made on the Company's books from January 1, 2018 through June

1 30, 2018, for both CIAC and accumulated amortization.  
2 Accumulated amortization also reflects a matching adjustment based  
3 on the Public Staff's recommended level of amortization expense. In  
4 addition, I also removed accumulated amortization related to  
5 Riverbend for the reason described above.

6 **ACCUMULATED DEFERRED INCOME TAX (ADIT)**

7 **Q. HOW HAVE YOU ADJUSTED ADIT?**

8 A. I have made several adjustments to ADIT. First, I have updated  
9 ADIT associated with rate case expense to reflect the unamortized  
10 balance recommended by the Public Staff. Next, I have adjusted  
11 ADIT to include the amount associated with the Public Staff's  
12 recommended levels of unamortized deferred maintenance. Finally,  
13 I adjusted ADIT to include the amount allocated from Water Service  
14 Company that was not included in the Company's pro forma balance  
15 for ADIT listed on the application.

16 The Public Staff will be recommending additional adjustments to  
17 ADIT once updated information has been received from the  
18 Company, including updates to rate case expense, ADIT related to  
19 post-test year plant additions and ADIT related to federal protected  
20 and unprotected ADIT, as well as adjustments for state ADIT.

**CUSTOMER DEPOSITS**

1

2 Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO CUSTOMER  
3 DEPOSITS.

4 A. Customer deposits were adjusted to reflect the balance as of June  
5 30, 2018, resulting in an increase in customer deposits for CWSNC  
6 Water, CWSNC Sewer, BF/FH Water and BF/FH Sewer.

**GAIN ON SALE AND FLOW BACK TAXES**

7

8 Q. WHAT ADJUSTMENT DID YOU MAKE TO GAIN ON SALE AND  
9 FLOW BACK TAXES?

10 A. I have adjusted gain on sale and flow back taxes to amortize the gain  
11 on sale of systems sold to CMUD through November 30, 2018.

**PLANT ACQUISITION ADJUSTMENT (PAA)**

12

13 Q. PLEASE DESCRIBE YOUR ADJUSTMENTS TO PAA.

14 A. PAA has been adjusted to include actual general ledger additions  
15 made on the Company's books as of June 30, 2018, for both PAA  
16 and accumulated amortization. PAA amortization has also been  
17 adjusted to include an annualized level of amortization based on the  
18 Public Staff's adjusted level of PAA amortization expense.

1

**EXCESS BOOK VALUE**

2

**Q. WHY DID YOU ADJUST EXCESS BOOK VALUE?**

3

A. Excess book value represents the difference between the price paid by CWSNC to purchase stock of water and sewer systems and the net book value of the stock. I have adjusted the excess book value to reflect the accumulated amortization and unamortized balances as of December 31, 2018.

4

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**AVERAGE TAX ACCRUALS**

9

**Q. HOW DID YOU CALCULATE AVERAGE TAX ACCRUALS?**

10

A. Average tax accruals, calculated as 1/2 of property taxes plus 1/5 of regulatory fee, are taxes which the Company collects in rates but does not pay to the governmental agency every month. Since the Company has the use of the money until it is paid to the governmental agency, these tax accruals should be deducted from rate base. Payroll taxes are not included in my calculation of average tax accruals since they are paid to the taxing agencies on a more frequent basis.

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**REGULATORY LIABILITY FOR EXCESS DEFERRED TAXES**

19

**Q. HOW DID YOU ADJUST REGULATORY LIABILITY FOR EXCESS DEFERRED TAXES?**

20

1 A. I have removed all of the regulatory liability excess deferred taxes  
2 and reset them to zero because excess deferred tax was included  
3 as a portion of the ADIT. The Public Staff will revise EDIT after  
4 additional documentation has been provided by the Company.

5 **DEFERRED CHARGES**

6 **Q. PLEASE DESCRIBE YOUR ADJUSTMENTS TO DEFERRED**  
7 **CHARGES.**

8 A. I have adjusted deferred charges to reflect the unamortized balance  
9 of deferred maintenance costs for tank painting, tank inspection, and  
10 wastewater treatment plant painting as of December 31, 2018. I did  
11 not include the unamortized balance of the Belvedere pump and haul  
12 costs in deferred charges. It is the Public Staff's recommendation  
13 that the Company should not be able to earn a return on these  
14 unusual and nonrecurring expenses that are abnormally high due to  
15 a disagreement with the Belvedere golf course. My exclusion of the  
16 unamortized balance of the pump and haul expenses is consistent  
17 with the treatment stipulated to by CWSNC and the Public Staff in  
18 the Company's W-354, Sub 356 rate case proceeding.

19 Next, I have adjusted unamortized rate case expense to reflect the  
20 Public Staff's recommended level of rate case costs, less one year  
21 of amortization, as discussed later in my testimony under regulatory  
22 commission expense. The unamortized rate case expense will be

1 updated to reflect additional expenses paid by the Company since  
2 the Public Staff filing date in this proceeding. The Public Staff will file  
3 supplemental exhibits to reflect the additional rate case expenses.

4 **PRO FORMA PLANT**

5 **Q. WHY DID YOU ADJUST PRO FORMA PLANT?**

6 A. In this proceeding, CWSNC included in rate base, estimated  
7 amounts for CWIP expected to be completed and in service by the  
8 hearing date. I have removed the estimated cost for these projects  
9 from rate base and adjusted plant in service to include the actual cost  
10 of CWIP projects completed and in service as of August 24, 2018.

11 **MISCELLANEOUS REVENUES**

12 **Q. WHY DID YOU ADJUST MISCELLANEOUS REVENUES?**

13 A. I adjusted miscellaneous revenues to correct the Company's error in  
14 omitting the allocated proceeds from the sale of utility property on its  
15 application. Miscellaneous revenues have also been adjusted to  
16 correct the allocation of other water/sewer revenues between water  
17 and sewer operations for the four rate divisions.

18 I calculated a forfeited discount rate for CWSNC Water, CWSNC  
19 Sewer, BF/FH Water and BF/FH Sewer operations by dividing the  
20 respective test year forfeited discounts by test year service  
21 revenues. The resulting rates were then applied to the Public Staff's

1 present, proposed and recommended levels of service revenues to  
2 determine an appropriate level of forfeited discounts to include in  
3 miscellaneous revenues.

4 **UNCOLLECTIBLES**

5 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO UNCOLLECTIBLES.**

6 A. I have calculated uncollectible percentages for CWSNC Water  
7 operations, CWSNC Sewer operations, BF/FH Water operations and  
8 BF/FH Sewer operations based on the per books levels of  
9 uncollectibles and service revenues for the test year. I then applied  
10 these percentages to my adjusted levels of service revenues under  
11 present, Company proposed, and recommended rates to derive my  
12 adjusted levels of uncollectibles expense.

13 **PURCHASED POWER**

14 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO PURCHASED**  
15 **POWER.**

16 A. There were two transactions that were recorded twice to purchased  
17 power in the Company's financial records. Therefore, I adjusted  
18 purchase power to remove both of these two transactions. This  
19 adjustment reduces purchase power by \$1,910 for CWSNC uniform  
20 water operations.



1

PURCHASE WATER

2

Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO PURCHASE WATER.

3

4

A. In addition to the adjustments recommended by Public Staff Engineer Casselberry, I made an additional adjustment to purchase water for BF/FH water operation. The Company not only recorded antenna lease revenues in miscellaneous revenue but also mistakenly included it as purchase water expense for BF/FH water operations. I removed the antenna lease revenue from purchase water expense which resulted in an increase in purchased water expense.

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MAINTENANCE AND REPAIR

13

Q. HOW HAVE YOU ADJUSTED MAINTENANCE AND REPAIR EXPENSE?

14

15

A. Maintenance and repair reflect adjustments recommend by Public Staff engineer Casselberry. I also adjusted maintenance and repair to reflect one year of annual amortization expense on the Public Staff's recommended level of deferred charges discussed above under deferred charges.

16

17

18

19

20

I also correct UA adjustment error made by the Company. The Company only use allocation from WSC to adjust the UA amount to reflect the correction for availability customers. The UA amount per

21

22

1 book is from the allocation of three cost centers, WSC, Regional and  
2 NC Cost Center. The adjustments to reflect correction of availability  
3 customers should come from all three cost centers instead of only  
4 WSC. I correct this error by adding the UA adjustments for availability  
5 customers from Regional and NC Cost Center as well.

6 **METER READING**

7 **Q. HOW HAVE YOU ADJUSTED METER READING?**

8 A. My only adjustment to meter reading is to remove the expense  
9 related to Riverbend which should not be included in this proceeding.

10 **TRANSPORTATION**

11 **Q. HOW HAVE YOU ADJUSTED TRANSPORTATION EXPENSE?**

12 A. I adjusted transportation expense to correct an UA allocation  
13 adjustments error and to remove transportation expense related to  
14 Riverbend.

15 **OPERATING EXPENSE CHARGE TO PLANT**

16 **Q. HOW HAVE YOU ADJUSTED OPERATING EXPENSE CHARGE**  
17 **TO PLANT EXPENSE?**

18 A. I adjusted operating expense charge to plant expense to correct the  
19 UA adjustments error and to remove operating expense charge to  
20 plant expense related to Riverbend. Additionally, the Company also

1 made an error misclassifying UA allocations amount among the four  
2 rate divisions. My adjustment corrects this error.

3 **OUTSIDE SERVICE OTHER**

4 Q. HOW HAVE YOU ADJUSTED OUTSIDE SERVICE OTHER  
5 EXPENSE?

6 A. I adjusted outside service other expense to correct an UA allocation  
7 adjustment error and to remove outside service other expense  
8 related to Riverbend. I also removed legal expenses that were  
9 outside of the test year and legal expense that should have been  
10 capitalized. These capitalized expense were added to the plant in  
11 service described above.

12 **OFFICE SUPPLIES AND OTHER OFFICE EXPENSE**

13 Q. HOW HAVE YOU ADJUSTED OFFICE SUPPLIES AND OTHER  
14 OFFICE EXPENSE?

15 A. I adjusted office supplies and other office expense to correct an UA  
16 allocation adjustment error and to remove office supplies and other  
17 office expense related to Riverbend. In addition, I also removed an  
18 expense item in the amount of \$670 for which the Company could  
19 not provide a supporting invoice.

**REGULATORY COMMISSION EXPENSE**

1

2 Q. PLEASE EXPLAIN HOW YOU CALCULATED REGULATORY  
3 COMMISSION EXPENSE.

4 A. Based on information provided by the Company regarding costs  
5 incurred to date, I have included a total of \$119,780 of rate case  
6 expenses for this proceeding, which is comprised of legal fees,  
7 printing and postage fees to mail notices to customers, expenses,  
8 capitalized salaries and wages, and consulting fees. I deducted \$131  
9 legal fees that was related to legislation. I have allocated total rate  
10 case expense to CWSNC water, CWSNC sewer, BF/FH water and  
11 BF/FH sewer based on the customer allocation percentages  
12 calculated from the Company's equivalent residential connections  
13 (ERCs). I also included in my calculation of rate case expense the  
14 unamortized balance rate case expense from the prior rate case  
15 proceeding, Docket No. W-354, Sub 356 (Sub 356). I am  
16 recommending total rate case expenses for this proceeding and the  
17 unamortized balance from Sub 356 be amortized to operating  
18 expenses over five years.

19

**RENT**

20 Q. PLEASE EXPLAIN HOW YOU ADJUSTED RENT EXPENSE.

21 A. I adjusted rent to remove the amount of expense related to  
22 Riverbend. Additionally, I adjusted the Company's pro forma rent

1 expense based on the current rental agreement for the Morehead  
2 City office, Charlotte Office and Charlotte Warehouse.

3 **INSURANCE EXPENSE**

4 **Q. PLEASE EXPLAIN YOUR ADJUSTMENTS TO INSURANCE**  
5 **EXPENSE.**

6 A. I adjusted the insurance premiums to reflect the current amount for  
7 insurance for Utilities, Inc., the parent company of CWSNC, provided  
8 by the Company and allocated to CWSNC using the following  
9 factors:

10 (a) I allocated automobile insurance based on the number of  
11 automobiles for CWSNC as a percentage to the total number  
12 of automobiles;

13 (b) I allocated workers compensation insurance to reflect the  
14 adjusted level of payroll;

15 (c) I allocated property insurance to reflect the value of the  
16 property covered by the current insurance policies; and

17 (d) I allocated the remaining insurance items to the various  
18 entities based on the number of customers.

1 Since the pollution liability insurance is a three-year policy, I made  
2 an adjustment to include only one-third of the pollution liability  
3 insurance premium to reflect an annual level of premium for this  
4 policy.

5 These adjustments resulted in a decrease in insurance expense of  
6 \$143,010.

7 **OFFICE UTILITY**

8 **Q. HOW HAVE YOU ADJUSTED OFFICE UTILITY EXPENSE?**

9 A. I adjusted office utility expense to correct an UA allocation  
10 adjustment error and to remove office utility expense related to  
11 Riverbend. I also adjusted office utility to remove a transaction in the  
12 amount of \$383 that was recorded twice in operating expenses.

13 **MISCELLANEOUS EXPENSE**

14 **Q. WHAT ADJUSTMENT WAS MADE TO MISCELLANEOUS**  
15 **EXPENSE?**

16 A. I adjusted miscellaneous expense to correct an UA allocation  
17 adjustment error and to remove miscellaneous expense related to  
18 Riverbend. The Company also include some expense that typically  
19 should not be included in the rate case, such as charitable  
20 contribution and lobbying expense. I adjusted miscellaneous  
21 expense excluded these expenses from this rate case proceeding.

**DEPRECIATION EXPENSE**

1

2 Q. HOW DID YOU ADJUST DEPRECIATION EXPENSE?

3 A. I have adjusted depreciation expense to reflect an ongoing annual  
4 level of depreciation expense for direct plant in service, based on the  
5 Public Staff's adjusted level of plant in service and the depreciation  
6 lives for each plant account.

7 My calculation of depreciation also included the annual amortization  
8 of excess book value for both CWSNC uniform water and sewer  
9 operations.

10 Finally, I have included the annual level of depreciation expense for  
11 the allocated plant in service.

**AMORTIZATION OF CIAC**

12

13 Q. WHAT ADJUSTMENT DID YOU MAKE TO AMORTIZATION OF  
14 CIAC?

15 A. CIAC amortization expense was adjusted to reflect the Public Staff's  
16 recommended level of CIAC times an amortization percentage  
17 based on the overall depreciation rate for the Public Staff's adjusted  
18 level of direct plant in service.

19

**AMORTIZATION OF PAA**

1

2 Q. WHY DID YOU ADJUST AMORTIZATION OF PAA?

3 A. PAA amortization expense was adjusted to reflect the Public Staff's  
4 recommended level of PAA times an amortization percentage based  
5 on the composite overall depreciation rate for the Public Staff's  
6 adjusted level of direct plant in service.

7

**FRANCHISE TAX AND OTHER TAXES**

8 Q. WHY DID YOU ADJUST FRANCHISE TAX AND OTHER TAXES?

9 A. I removed franchise and other taxes that was related to Riverbend.

10

**PROPERTY TAXES**

11 Q. WHY DID YOU ADJUST PROPERTY TAX?

12 A. I adjusted property taxes expense to correct an UA allocation  
13 adjustment error and to remove property taxes expense related to  
14 Riverbend.

15

**REGULATORY FEE**

16 Q. WHAT ADJUSTMENT HAVE YOU MADE TO REGULATORY  
17 FEE?

18 A. I have calculated regulatory fee using the statutory rate of 0.14%  
19 applied to total operating revenues under present, Company  
20 proposed, and Public Staff recommended rates.



1

STATE INCOME TAX

2 Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO STATE INCOME  
3 TAX.

4 A. State income tax was calculated based on the adjusted levels of  
5 revenues and expenses, and the State income tax rate of 3%,  
6 effective January 1, 2017.

7

FEDERAL INCOME TAX

8 Q. WHAT ADJUSTMENT HAVE YOU MADE TO FEDERAL INCOME  
9 TAX?

10 A. Federal income tax is based on the statutory corporate rates of 21%.  
11 effective January 1, 2018 for the level of income presented after all.  
12 Public Staff adjustments.

13 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

14 A. Yes, it does.

1 BY MS. HOLT:

2 Q. Mr. Henry, did you file supplemental  
3 testimony on October 12th consisting of six pages, two  
4 exhibits, and several schedules?

5 A. Yes, I did.

6 Q. Do you have any additions or corrections to  
7 your testimony?

8 A. No, I do not.

9 Q. If you were asked those same questions today,  
10 would your answers be the same?

11 A. Yes, they would.

12 MS. HOLT: I request that Mr. Henry's  
13 supplemental testimony consisting of six pages be  
14 copied into the record as if given orally from the  
15 stand and that his exhibits be identified as  
16 premarked.

17 CHAIRMAN FINLEY: Mr. Henry's direct  
18 supplemental testimony of six pages of  
19 October 12 is copied into the record as though  
20 given orally from the stand, and his two exhibits  
21 and accompanying schedules are marked for  
22 identification as premarked in the filing.

23 (Henry Supplemental Exhibit Number 1 was  
24 marked for identification.)

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(Whereupon, the prefiled supplemental testimony of Windley Henry, was copied into the record as if given orally from the stand.)

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. W-354, SUB 360

In the Matter of  
 Application by Carolina Water Service, )  
 Inc. of North Carolina, 4944 Parkway )  
 Plaza Boulevard, Suite 375, Charlotte, )  
 North Carolina 28217, for Authority to )  
 Adjust and Increase Rates for Water )  
 and Sewer Utility Service in All of Its )  
 Service Areas in North Carolina, Except )  
 Corolla Light and Monteray Shores )  
 Service Area )

SUPPLEMENTAL  
 TESTIMONY OF  
 WINDLEY E. HENRY  
 PUBLIC STAFF – NORTH  
 CAROLINA UTILITIES  
 COMMISSION

**CAROLINA WATER SERVICE, INC. OF NORTH CAROLINA  
DOCKET NO. W-354, SUB 360**

**SUPPLEMENTAL TESTIMONY OF WINDLEY E. HENRY  
ON BEHALF OF THE PUBLIC STAFF –  
NORTH CAROLINA UTILITIES COMMISSION**

**October 12, 2018**

1 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND**  
2 **PRESENT POSITION.**

3 A. My name is Windley E. Henry and my business address is 430 N.  
4 Salisbury Street, Raleigh, North Carolina. I am the Accounting  
5 Manager of the Water/Communications Section of the Public Staff –  
6 Accounting Division, and represent the using and consuming  
7 public.

8 **Q. DID YOU PREFILE DIRECT TESTIMONY AND EXHIBITS IN THIS**  
9 **DOCKET ON OCTOBER 3, 2018?**

10 A. No.

11 **Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL**  
12 **TESTIMONY IN THIS PROCEEDING?**

13 A. The purpose of my supplemental testimony is to present the  
14 accounting and ratemaking adjustments I have updated from Public  
15 Staff witness Feasel's original testimony and exhibit as a result of  
16 information provided by the Company subsequent to the filing of  
17 her direct testimony, as well as updates and corrections

1 recommended by other Public Staff witnesses. I am adopting  
 2 Public Staff witness Feasel's testimony and exhibit as my own and  
 3 using her schedules to reflect my proposed updates to rate base  
 4 and expenses.

5 **Q. MR. HENRY, WHAT UPDATED OR CORRECTED**  
 6 **ADJUSTMENTS TO THE COMPANY'S COST OF SERVICE DO**  
 7 **YOU RECOMMEND?**

8 A. I recommend updated, corrected, or new adjustments in the  
 9 following areas:

- 10 1) Plant in service;
- 11 2) Accumulated depreciation and depreciation expense;
- 12 3) Accumulated deferred income taxes;
- 13 4) State excess deferred income taxes;
- 14 5) Rent; and
- 15 6) Miscellaneous.

16 **Q. WHAT ADJUSTMENTS RECOMMENDED BY OTHER PUBLIC**  
 17 **STAFF WITNESSES DOES YOUR EXHIBIT INCORPORATE?**

18 A. My exhibit reflects the following adjustments recommended by  
 19 other Public Staff witnesses:

- 20 1) The recommendations of Public Staff witness Boswell  
 21 regarding federal excess deferred income taxes (EDIT).
- 22 2) The recommendations of Public Staff witness Johnson  
 23 regarding salaries and wages, pensions and benefits, and  
 24 payroll taxes.

1           3) The recommendation of Public Staff witness Hinton regarding  
2           capital structure and embedded cost of long-term debt.

3   **Q. PLEASE DESCRIBE YOUR RECOMMENDED ADJUSTMENTS.**

4   **A.** My adjustments are described below.

5                                   **PLANT IN SERVICE**

6   **Q. HOW HAVE YOU ADJUSTED PLANT IN SERVICE?**

7   **A.** Plant in service has been adjusted to include the cost of water main  
8       relocation construction projects that were completed and placed  
9       into service after the October 3, 2018, filing of the Public Staff's  
10      testimony and exhibits in this proceeding. I have included the cost  
11      of the project, net of retirement, in my calculation of post test year  
12      plant additions, which are included in my recommended level of  
13      plant in service.

14                               **ACCUMULATED DEPRECIATION AND DEPRECIATION EXPENSE**

15   **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO ACCUMULATED**  
16    **DEPRECIATION AND DEPRECIATION EXPENSE.**

17   **A.** I have calculated additional amounts for accumulated depreciation  
18      and depreciation under plant in service to reflect the main  
19      relocation project discussed above. Accumulated depreciation and  
20      depreciation expense were calculated using the service life for  
21      water mains recommended by the Public Staff.

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**ACCUMULATED DEFERRED INCOME TAXES (ADIT)**

**Q. PLEASE DESCRIBE YOUR ADJUSTMENT TO ADIT.**

A. I adjusted ADIT to include the amount of federal protected and unprotected EDIT recommended by Public Staff witness Boswell in her testimony. The result of this adjustment is a reduction of \$1,050,165 in ADIT.

**STATE EXCESS DEFERRED INCOME TAXES**

**Q. HOW HAVE YOU ADJUSTED STATE EXCESS DEFERRED INCOME TAXES?**

A. After reviewing additional information provided by the Company, I added back to rate base, the unamortized portion of state EDIT that was approved in the prior rate case proceeding, Docket No. W-354, Sub 356. The Company proposed in its rate case application to continue amortizing the state EDIT liability over its remaining life. The Public Staff removed the Company's proposed state EDIT liability from rate base until it had sufficient data to evaluate both state and federal EDIT. Based on its review of EDIT for the proceeding, the Public Staff has determined that the Company's proposal to return state EDIT liability to customers is reasonable.



1

RENT

2 Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO RENT.

3 A. I have adjusted rent to include the 2018 annual lease agreement for  
4 the Morehead City office based on the Company's response to  
5 Public Staff data requests.

6

MISCELLANEOUS EXPENSE

7 Q. WHY DID YOU ADJUST MISCELLANEOUS EXPENSE?

8 A. Miscellaneous expense has been adjusted to include the annual  
9 amortization expense of state EDIT that was reclassified from  
10 depreciation expense. This treatment of state EDIT is consistent  
11 with the treatment in prior rate cases.

12 Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY?

13 A. Yes, it does.

**CAROLINA WATER SERVICE, INC., OF NC**

Docket No. W-354, Sub 360

**CALCULATION OF DEPRECIATION AND AMORTIZATION EXPENSE**

For The Test Year Ended December 31, 2017

Public Staff  
Henry Supp. Exhibit I  
Schedule 3-15

Line No.		CWSNC Water (a)	CWSNC Sewer (b)	BF/FH/TC Water (c)	BF/FH/TC Sewer (d)
1	Depreciation on direct plant	\$2,764,881 [1]	\$2,220,708 [8]	\$110,497 [13]	\$324,927 [17]
2	Depreciation on allocated plant	125,066 [2]	69,068 [2]	17,106 [2]	15,053 [2]
3	Gain on sale	0	0	0	0
4	Excess book value	(11,970) [3]	(17,954) [9]	0	0
5	Total depreciation expense (Sum of L1 thru L4)	<u>\$2,877,977</u>	<u>\$2,271,822</u>	<u>\$127,603</u>	<u>\$339,980</u>
6	Contributions in aid of construction	(\$28,597,029) [4]	(\$28,157,914) [10]	(\$2,227,276) [14]	(\$7,088,979) [18]
7	Advances in aid of construction	(23,760) [5]	(9,180) [5]	0	0
8	Depreciable CIAC and AIA (L6 + L7)	<u>(28,620,789)</u>	<u>(28,167,094)</u>	<u>(2,227,276)</u>	<u>(7,088,979)</u>
9	Amortization rate	2.70% [6]	2.75% [11]	2.15% [15]	2.56% [19]
10	CIAC and AIA amortization expense (L8 x L9)	<u>(\$772,761)</u>	<u>(\$774,595)</u>	<u>(\$47,886)</u>	<u>(\$181,478)</u>
11	Purchase acquisition adjustment	(\$4,278,312) [7]	(\$627,070) [12]	\$603,123 [16]	\$1,658,577 [20]
12	Amortization rate	2.70% [6]	2.75% [11]	2.15% [15]	2.56% [19]
13	PAA amortization expense (L11 x L12)	<u>(\$115,514)</u>	<u>(\$17,244)</u>	<u>\$12,967</u>	<u>\$42,460</u>

[1] Henry Exhibit I, Schedule 3-15(a), Column (c), Line 46.

[2] Calculated by the Public Staff based on information provided by the Company.

[3] Henry Exhibit I, Schedule 2-9, Column (b), Line 7.

[4] Henry Exhibit I, Schedule 2-4, Column (a), Line 6.

[5] Per examination of Company's financial records.

[6] Henry Exhibit I, Schedule 3-15(a), Column (d), Line 46.

[7] Henry Exhibit I, Schedule 2-8, Column (a), Line 5.

[8] Henry Exhibit I, Schedule 3-15(b), Column (c), Line 58.

[9] Henry Exhibit I, Schedule 2-9, Column (b), Line 12.

[10] Henry Exhibit I, Schedule 2-4, Column (d), Line 6.

[11] Henry Exhibit I, Schedule 3-15(b), Column (d), Line 58.

[12] Henry Exhibit I, Schedule 2-8, Column (d), Line 5.

[13] Henry Exhibit I, Schedule 3-15(c), Column (c), Line 46.

[14] Henry Exhibit I, Schedule 2-4, Column (g), Line 6.

[15] Henry Exhibit I, Schedule 3-15(c), Column (d), Line 46.

[16] Henry Exhibit I, Schedule 2-8, Column (g), Line 5.

[17] Henry Exhibit I, Schedule 3-15(d), Column (c), Line 58.

[18] Henry Exhibit I, Schedule 2-4, Column (j), Line 6.

[19] Henry Exhibit I, Schedule 3-15(d), Column (d), Line 58.

[20] Henry Exhibit I, Schedule 2-8, Column (j), Line 5.

1 BY MS. HOLT:

2 Q. Mr. Henry, do you have a summary?

3 A. I do.

4 Q. Please read it.

5 A. Carolina Water filed a rate increase  
6 application on April 27, 2018. On October 3, 2018,  
7 Public Staff accountant Feasel prefiled testimony and  
8 an exhibit on her -- based on her investigation of the  
9 data in the application as well as Company books and  
10 records. I am adopting Public Staff Feasel's testimony  
11 and exhibit as my own and using her schedules to  
12 reflect my proposed updates to rate base and expenses.  
13 I have updated Public Staff witness Feasel's original  
14 testimony exhibits as a result of information provided  
15 by the Company subsequent to the filing of her direct  
16 testimony as well as updates and corrections  
17 recommended by other Public Staff witnesses. I will  
18 now summarize my more significant adjustments.

19 I have adjusted rate base to include updates  
20 to plant in service, accumulated depreciation,  
21 contributions in aid of construction, purchase  
22 acquisition adjustment, and customer deposits for  
23 post-test year additions through June 30, 2018. Plant  
24 in service has also been adjusted to include

1 construction work in project projects completed in  
2 service as of October 12, 2018.

3 I have adjusted accumulated deferred income  
4 taxes associated with rate case expense and unamortized  
5 deferred maintenance to reflect the unamortized balance  
6 of these deferred items. ADIT has also been adjusted  
7 to include the Public Staff's adjusted level of excess  
8 deferred income taxes.

9 I have removed plant in service and operating  
10 expenses related to the Riverbend water system because  
11 Carolina Water is only the emergency operator for this  
12 system. Rates for this system were established in the  
13 emergency operating procedure separate and apart from  
14 Carolina Water's uniform water operations, and  
15 therefore, no cost associated with this system should  
16 be included in cost of service.

17 Regulatory commission expense for this  
18 proceeding has been adjusted to include actual costs  
19 incurred to date based on the information provided by  
20 the Company. To this amount, I added an unamortized  
21 balance of rate case expense from the prior rate case  
22 proceeding in Docket Number W-354, Sub 356. It is my  
23 recommendation that total rate case expense for the  
24 current and prior proceeding be amortized to expenses

1 over five years.

2 I have adjusted insurance expense to reflect  
3 the current premiums provided by the Company. I  
4 allocate automobile insurance, workers' compensation  
5 insurance, and property insurance to Carolina Water  
6 from its parent company, Utilities, Inc., based on  
7 allocation factors that closely resemble the Company's  
8 premium being paid. The remaining insurance premiums  
9 were allocated based on customers.

10 Depreciation expense has been adjusted to  
11 reflect an ongoing level of expense based on the Public  
12 Staff adjusted level of plant in service and the  
13 depreciation lives for each plant account.

14 Amortization of CIAC and PAA were calculated  
15 based on the overall depreciation rates for the Public  
16 Staff adjusted level of plant in service.

17 This concludes my summary.

18 Q. Thank you.

19 Ms. Johnson, please state your name, business  
20 address, and position for the record.

21 A. (Sonja Johnson) My name is Sonya Johnson.  
22 My business address is 430 North Salisbury Street in  
23 Raleigh, North Carolina. And my position is Public  
24 Staff accountant.

1 Q. Did you prefile in this docket, on or about  
2 October 3, 2018, testimony in question-and-answer form  
3 consisting of seven pages and one exhibit?

4 A. I did.

5 Q. And on October 4th, did you file supplemental  
6 testimony consisting of four pages?

7 A. I believe it was the 5th, maybe.

8 Q. October 5th?

9 A. Uh-huh, I did.

10 Q. And on October 12th, did you file second  
11 supplemental testimony consisting of four pages and one  
12 exhibit?

13 A. I did.

14 Q. Do you have any additions or corrections to  
15 your testimony?

16 A. I do not.

17 MS. HOLT: I request that Ms. Johnson's  
18 testimony consisting of seven pages and one exhibit  
19 be copied into the record as if given orally from  
20 the stand, and that that one exhibit be identified  
21 as premarked. Also request that her supplemental  
22 testimony on October 5th be -- consisting of four  
23 pages be copied into the record as if given orally  
24 from the stand, and her second supplemental

1 testimony consisting of four pages be copied into  
2 the record as if given orally from the stand, and  
3 that her one exhibit be identified as marked.

4 BY MS. HOLT:

5 Q. Do you have a summary of your testimony?

6 CHAIRMAN FINLEY: Hold on. Let's -- let  
7 me rule on your request there, please.

8 Ms. Johnson's direct testimony of seven pages of  
9 October 3rd consisting of seven pages is copied  
10 into the record as if given orally from the stand.  
11 Her one exhibit is marked for identification as  
12 premarked in the filing. Her supplemental  
13 testimony of four pages of October 5th is copied  
14 into the record as if given orally from the stand.  
15 Her second supplemental testimony of four pages is  
16 copied into the record as if given orally from the  
17 stand, and the one exhibit is marked for  
18 identification as premarked in the filing.

19 (Johnson Exhibit Number 1 and Johnson  
20 Supplemental Exhibit Number 1 were  
21 marked for identification.)

22 (Whereupon, the prefiled direct  
23 testimony, prefiled supplemental  
24 testimony, and prefiled second

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supplemental testimony of Sonja Johnson  
were copied into the record as if given  
orally from the stand.)



OCT 04 REC'D

CAROLINA WATER SERVICE, INC. OF NORTH CAROLINA  
DOCKET NO. W-354, SUB 360

Clerk's Office  
N.C. Utilities Commission

TESTIMONY OF SONJA R. JOHNSON  
ON BEHALF OF THE PUBLIC STAFF  
NORTH CAROLINA UTILITIES COMMISSION

October 3, 2018

1 Q. PLEASE STATE FOR THE RECORD YOUR NAME, ADDRESS,  
2 AND PRESENT POSITION.

3 A. My name is Sonja R. Johnson and my business address is 430 North  
4 Salisbury Street, Raleigh, North Carolina. I am a Staff Accountant  
5 with the Accounting Division of the Public Staff – North Carolina  
6 Utilities Commission, and represent the using and consuming public.

7 Q. HOW LONG HAVE YOU BEEN EMPLOYED BY THE PUBLIC  
8 STAFF?

9 A. I have been employed by the Public Staff since January 1, 2006.

10 Q. PLEASE BRIEFLY DISCUSS YOUR EDUCATION AND  
11 EXPERIENCE.

12 A. I am a graduate of North Carolina State University with a Bachelor of  
13 Science and Master of Science degree in Accounting. I was initially  
14 an employee of the Public Staff from December 2002 until May 2004,  
15 and rejoined the Public Staff in January 2006. Since initially joining  
16 the Public Staff in December 2002, I have filed testimony or affidavits  
17 in several water and sewer general rate cases. I have also filed

1 testimony in applications for certificates of public convenience and  
2 necessity of existing systems. My experience also includes filing  
3 affidavits in several fuel rate cases of Duke Energy Carolinas, LLC.

4 **Q. WHAT ARE YOUR DUTIES?**

5 A. I am responsible for analyzing testimony, exhibits, and other data  
6 presented by parties before this Commission. I have the further  
7 responsibility of performing the examinations of books and records  
8 of utilities involved in proceedings before the Commission, and  
9 summarizing the results into testimony and exhibits for presentation  
10 to the Commission.

11 **Q. MS. JOHNSON, WHAT IS THE NATURE OF THE APPLICATION**  
12 **IN THIS PROCEEDING?**

13 A. On April 27, 2018, Carolina Water Service, Inc. of North Carolina  
14 (CWSNC or Company) filed an application with the Commission  
15 seeking authority to increase rates for all of its water and sewer  
16 service areas in North Carolina.

17 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**  
18 **PROCEEDING?**

19 A. The purpose of my testimony is to present the results of my  
20 investigation of the following aspects of the Company's application  
21 and my recommendations regarding them: (1) salaries and wages;  
22 (2) benefits; and (3) payroll taxes.

1 Q. PLEASE DESCRIBE THE SCOPE OF YOUR INVESTIGATION  
2 INTO THE COMPANY'S FILING.

3 A. My investigation included a review of the Company's application for  
4 rate increase for its CWSNC Uniform water, CWSNC Uniform sewer,  
5 Bradfield Farms/Fairfield Harbour water, Bradfield Farms/Fairfield  
6 Harbour sewer operations and other data filed by the Company, an  
7 examination of the books and records for the test year ended  
8 December 31, 2017, and a review of the Company's accounting,  
9 end-of-period, and after period adjustments to test year rate base  
10 and expenses.

11 Q. MS. JOHNSON, BASED ON YOUR INVESTIGATION, WHAT  
12 ADJUSTMENTS TO THE COMPANY'S RATE BASE AND  
13 EXPENSES DO YOU RECOMMEND?

14 A. Based on my investigation, I recommend adjustments for the  
15 following items:

- 16 1) Salaries and wages;
- 17 2) Employee benefits; and
- 18 3) Payroll taxes.

19 **SALARIES AND WAGES**

20 Q. WHAT ADJUSTMENTS HAVE YOU MADE TO SALARIES AND  
21 WAGES?

22 A. I have made the following adjustments to salaries and wages:

- 23 1) Correct UA allocation error;
- 24 2) Remove open positions;

- 1 3) Add new positions;
- 2 4) Remove bonus related to earnings per share that benefit
- 3 shareholders; and
- 4 5) Allocate executive compensation to shareholders.

5 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO CORRECT AN UA**  
6 **ALLOCATION ERROR.**

7 A. In its application, the Company utilized an allocation percentage  
8 which included the Riverbend Estates subdivision. Since CWSNC is  
9 the emergency operator for this system, expenses related to  
10 operating this system should not be included in a general rate case.

11 **Q. HAS THE COMPANY INCLUDED OPEN POSITIONS IN ITS**  
12 **CALCULATION OF SALARIES AND WAGES FOR THIS CASE?**

13 A. Yes. While some of the positions that were open as of June 30,  
14 2018, have been filled since then, there also have been other  
15 positions that have become open due to employees leaving the  
16 Company. After my update through June 30, 2018, of the 17 open  
17 positions, there were 12 positions filled. According to updated salary  
18 information provided by the Company as described above, there are  
19 5 open positions as of June 30, 2018.

20 **Q. SHOULD THE COMPANY BE ALLOWED TO INCLUDE**  
21 **SALARIES FOR OPEN POSITIONS IN RATES OR FOR**  
22 **EMPLOYEES HIRED TO FILL OPEN POSITIONS BETWEEN**  
23 **NOW AND THE HEARING DATE?**

1 A. No. The salaries related to open positions should not be included in  
2 expenses, for several reasons. First, if and when these positions will  
3 be filled, and how much the new employees will be paid if the  
4 positions are filled, is not known at this time. Second, CWSNC has  
5 historically experienced some turnover in employees, and, therefore,  
6 will always have some level of open positions on an ongoing basis.  
7 Even if the open positions are eventually filled, other employees may  
8 have left the Company during the interim period. To allow the  
9 Company to make an adjustment to reflect the salaries of employees  
10 potentially hired to fill open positions, without recognizing the  
11 decrease in salaries due to employees who may potentially leave, is  
12 inappropriate. Such an adjustment overstates the ongoing level of  
13 salaries and wages, since it includes salaries as if all positions are  
14 filled, which will not occur on an ongoing basis due to turnover. The  
15 same reasoning applies to the salaries of employees hired between  
16 the date of this testimony and the hearing date.

17 **Q. WHAT ADJUSTMENTS HAVE YOU MADE FOR OPEN AND NEW**  
18 **POSITIONS?**

19 A. Consistent with the previous discussion, I have removed the salaries  
20 for the five open positions that have not been filled and included the  
21 salaries for the five new positions that have been created.

- 1 Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO BONUSES.
- 2 A. The Company filed the actual bonuses paid to North Carolina  
3 employees during the test year. After examining their bonus policies,  
4 I removed the bonus paid to one North Carolina employee. According  
5 to CWSNC's most recent policies regarding its Executive Long Term  
6 Performance Plan (ELTP), the Company provides "certain key  
7 executives with an additional incentive to further the growth and  
8 development of the Company with a view to maximizing long-term  
9 shareholder value." In the Public Staff's opinion, maximizing long-  
10 term shareholder value benefits shareholders instead of ratepayers.  
11 It is the Public Staff's opinion that it is inappropriate to include this  
12 portion of the bonuses in this rate case. Therefore, I reduced final  
13 salaries and wages by the amount of the bonus.

14 **EMPLOYEE PENSIONS AND BENEFITS**

- 15 Q. PLEASE DESCRIBE YOUR ADJUSTMENTS TO PENSIONS AND  
16 BENEFITS.
- 17 A. Based on the information provided by the Company, it is the opinion  
18 of the Public Staff that no adjustment be made at this time. Once  
19 more information is received from the Company, the Public Staff will  
20 file supplemental testimony as necessary.

PAYROLL TAXES

1

2 Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO PAYROLL TAXES.

3 A. I have adjusted payroll taxes for CWSNC employees to reflect my  
4 adjusted level of salary and current payroll tax rates. These  
5 adjustments resulted in a decrease in payroll taxes.

6 Q. DOES THIS COMPLETE YOUR TESTIMONY?

7 A. Yes, it does.

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. W-354, SUB 360

In the Matter of  
Application of Carolina Water Service, )  
Inc. of North Carolina, Inc., 4944 )  
Parkway Plaza Boulevard, Suite 375, )  
Charlotte, North Carolina, 28217, for )  
Authority to Adjust and Increase Rates )  
for Water and Sewer Utility Service in )  
All Service Areas in North Carolina )

SUPPLEMENTAL  
TESTIMONY OF  
SONJA R. JOHNSON  
PUBLIC STAFF – NORTH  
CAROLINA UTILITIES  
COMMISSION



**CAROLINA WATER SERVICE, INC. OF NORTH CAROLINA  
DOCKET NO. W-354, SUB 360**

**SUPPLEMENTAL TESTIMONY OF SONJA R. JOHNSON  
ON BEHALF OF THE PUBLIC STAFF –  
NORTH CAROLINA UTILITIES COMMISSION**

**October 5, 2018**

1 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND**  
2 **PRESENT POSITION.**

3 **A. My name is Sonja R. Johnson and my business address is 430 N.**  
4 **Salisbury Street, Raleigh, North Carolina. I am a Staff Accountant**  
5 **with the Accounting Division of the Public Staff – North Carolina**  
6 **Utilities Commission and represent the using and consuming public.**

7 **Q. ARE YOU THE SAME SONJA R. JOHNSON WHOSE DIRECT**  
8 **TESTIMONY AND EXHIBITS WERE FILED IN THIS DOCKET ON**  
9 **OCTOBER 3, 2018?**

10 **A. Yes.**

11 **Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL**  
12 **TESTIMONY IN THIS PROCEEDING?**

13 **A. The purpose of my supplemental testimony is to present the omitted**  
14 **explanation for the allocation of executive compensation to**  
15 **shareholders from my original testimony.**

1 Q. MS. JOHNSON, WHAT UPDATED OR CORRECTED  
2 EXPLANATION TO THE COMPANY'S SALARIES AND WAGES  
3 DO YOU RECOMMEND?

4 A. I support recommending updated or corrected explanations in the  
5 following area:

6 1) Allocate executive compensation to shareholders  
7

8 Q. PLEASE DESCRIBE YOUR RECOMMENDED ADJUSTMENTS.

9 A. The Public Staff made an adjustment to remove 50% of the  
10 compensation of the top three executive officers of Utilities, Inc. as  
11 listed in response to Public Staff inquiry.

12 The three executives are the President and Chief Executive Officer,  
13 the Vice President General Counsel, and the President.

14 Q. IS YOUR RECOMMENDATION BASED ON THE PREMISE THAT  
15 THE COMPENSATION OF THE UTILITIES, INC. EXECUTIVE  
16 OFFICERS YOU HAVE SELECTED ARE EXCESSIVE OR  
17 SHOULD BE REDUCED?

18 A. No. This recommendation is based on the Public Staff's belief that it  
19 is appropriate and reasonable for the shareholders of large water and  
20 wastewater utilities to bear some of the cost of compensating those  
21 individuals who are most closely linked to furthering shareholder  
22 interests, which are not the same as those of ratepayers. Officers  
23 have fiduciary duties of care and loyalty to shareholders, but not to  
24 customers. Consequently, the Company's executive officers are

1 obligated to direct their efforts not only to minimizing the costs and  
2 maximizing the reliability of Carolina Water Service, Inc.'s (CWSNC  
3 or the Company) service to customers, but also to maximizing the  
4 Company's earnings and the value of its shares. It is reasonable to  
5 expect that management will serve the shareholders as well as the  
6 ratepayers; therefore, a portion of management compensation and  
7 pension should be borne by the shareholders.

8 In addition to salaries and pensions, these three executive officers  
9 receive incentive plan compensation, including Executive Long Term  
10 Payment Grants which are based upon meeting Utilities, Inc.'s  
11 Return on Total Capital target and meeting the Company's  
12 Incremental Growth Capital target.

14 The Utilities, Inc. top three executives' compensation allocated to  
15 CWSNC totaled \$185,196, of which the Public Staff recommends  
16 50% totaling \$92,598 be removed as shareholder expense.

17 **Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY?**

18 **A. Yes, it does.**

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. W-354, SUB 360

In the Matter of  
Application of Carolina Water Service, )  
Inc. of North Carolina, Inc., 4944 )  
Parkway Plaza Boulevard, Suite 375, )  
Charlotte, North Carolina, 28217, for )  
Authority to Adjust and Increase Rates )  
for Water and Sewer Utility Service in )  
All Service Areas in North Carolina )

SECOND  
SUPPLEMENTAL  
TESTIMONY OF  
SONJA R. JOHNSON  
PUBLIC STAFF – NORTH  
CAROLINA UTILITIES  
COMMISSION

Oct 12 2018

**CAROLINA WATER SERVICE, INC. OF NORTH CAROLINA  
DOCKET NO. W-354, SUB 360**

**SECOND SUPPLEMENTAL TESTIMONY OF SONJA R. JOHNSON  
ON BEHALF OF THE PUBLIC STAFF –  
NORTH CAROLINA UTILITIES COMMISSION**

**October 12, 2018**

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND  
PRESENT POSITION.**

**A. My name is Sonja R. Johnson and my business address is 430 N.  
Salisbury Street, Raleigh, North Carolina. I am a Staff Accountant  
with the Accounting Division of the Public Staff – North Carolina  
Utilities Commission and represent the using and consuming public.**

**Q. ARE YOU THE SAME SONJA R. JOHNSON WHOSE DIRECT  
TESTIMONY AND EXHIBITS WERE FILED IN THIS DOCKET ON  
OCTOBER 3, 2018?**

**A. Yes.**

**Q. WHAT IS THE PURPOSE OF YOUR SECOND SUPPLEMENTAL  
TESTIMONY IN THIS PROCEEDING?**

**A. The purpose of my second supplemental testimony is to present the  
accounting and ratemaking adjustments I have updated from my  
original testimony or recommend as a result of information provided  
by the Company subsequent to the filing of my direct testimony.**

**Q. MS. JOHNSON, WHAT UPDATED OR CORRECTED ADJUSTMENTS TO THE COMPANY'S COST OF SERVICE DO YOU RECOMMEND?**

**A.** I support recommending updated or new adjustments in the following areas:

- 1) Salaries and wages;
- 2) Pensions and benefits; and
- 3) Payroll taxes.

**Q. PLEASE DESCRIBE YOUR RECOMMENDED ADJUSTMENTS.**

**A.** My adjustments are described below.

**SALARIES AND WAGES**

**Q. HOW HAVE YOU ADJUSTED SALARIES AND WAGES?**

**A.** Based on additional information provided by the Company, I adjusted salaries and wages to add an additional employee and to correct a data entry error.

**PENSIONS AND BENEFITS**

**Q. PLEASE DESCRIBE YOUR ADJUSTMENTS TO PENSIONS AND BENEFITS.**

**A.** I have made matching adjustments to pensions and benefits related to adjustments made to salaries and wages for updates to open positions and executive compensation.

PAYROLL TAXES

**Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO PAYROLL TAXES.**

A. I have adjusted payroll taxes to reflect my adjusted level of salary and wages.

**Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY?**

A. Yes, it does.

1 BY MS. HOLT:

2 Q. Thank you. Do you have a summary of your  
3 testimony?

4 A. (Sonja Johnson) I do.

5 Q. Please read it.

6 A. Carolina Water Service filed a rate increase  
7 application on April 27, 2018. I performed an  
8 investigation of the data in the application, as well  
9 as the Company's books and records, and prefiled  
10 testimony and an exhibit on October 3, 2018, as well as  
11 supplemental testimony on October 5, 2018. On  
12 October 12, 2018, I filed second supplemental testimony  
13 and a revised supplemental exhibit that reflects  
14 updates and revisions to my prefiled and supplemental  
15 testimony and exhibit. I will now summarize my  
16 adjustments.

17 I have reduced salaries and wages to remove  
18 salaries related to open positions. I have also  
19 adjusted salaries and wages to remove 50 percent of the  
20 compensation, including pension and benefits, of the  
21 top three executive officers of Utilities, Inc. to  
22 reflect the Public Staff's recommended level of  
23 salaries and wages for these executives. It is  
24 reasonable to expect that management will serve the



1 shareholders as well as the ratepayers, therefore, a  
2 portion of management compensation and benefits should  
3 be borne by the shareholders.

4 Matching adjustments have been made to  
5 pensions and benefits and payroll taxes to reflect the  
6 Public Staff's adjusted level of salaries and wages.

7 This concludes my summary.

8 Q. Thank you. Ms. Boswell, please state your  
9 name, business address, and position for the record.

10 A. (Michelle Boswell) Michelle Boswell, 430  
11 North Salisbury Street, Raleigh, North Carolina. I'm  
12 an accountant with the Public Staff accounting  
13 division.

14 Q. Did you prefile in this docket, on  
15 October 4, 2018, testimony in question-and-answer form  
16 consisting of five pages?

17 A. Yes, I did.

18 Q. And on October 12th, did you file  
19 supplemental testimony consisting of 11 pages and one  
20 exhibit?

21 A. Yes, I did.

22 Q. Do you have any additions or corrections to  
23 make to your testimony?

24 A. I do not.

1 Q. If you were asked those same questions today,  
2 would your answers be the same?

3 A. They would.

4 MS. HOLT: I request that Ms. Boswell's  
5 testimony consisting of five pages be copied into  
6 the record as if given orally from the stand, and  
7 that -- and I also request that Ms. Boswell's  
8 supplemental testimony filed on October 12th  
9 consisting of 11 pages be copied into the record as  
10 if given orally from the stand. And that her  
11 supplemental exhibit be identified as marked.

12 CHAIRMAN FINLEY: Ms. Boswell's direct  
13 testimony of five pages of October 4, 2018, is  
14 copied into the record as if given orally from the  
15 stand. Her supplemental testimony of 11 pages is  
16 copied into the record as though given orally from  
17 the stand. And her one exhibit is marked for  
18 identification as premarked in the filing.

19 (Boswell Supplemental Exhibit Number 1  
20 was marked for identification.)

21 (Whereupon, the prefiled direct and  
22 prefiled supplemental testimony of  
23 Michelle Boswell was copied into the  
24 record as if given orally from the

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stand.)

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. W-354, SUB 360

In the Matter of  
Application by Carolina Water Service, )  
Inc. of North Carolina, for Authority to )  
Adjust and Increase Rates for Water )  
and Sewer Utility Service in Service )  
Areas in North Carolina )  
)

TESTIMONY OF  
MICHELLE M. BOSWELL  
PUBLIC STAFF - NORTH  
CAROLINA UTILITIES  
COMMISSION

**BEFORE THE NORTH CAROLINA UTILITIES COMMISSION****DOCKET NO. W-354, SUB 360****TESTIMONY OF MICHELLE M. BOSWELL  
ON BEHALF OF THE PUBLIC STAFF  
NORTH CAROLINA UTILITIES COMMISSION****OCTOBER 4, 2018**

1 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND**  
2 **PRESENT POSITION.**

3 **A.** My name is Michelle M. Boswell. My business address is 430 North  
4 Salisbury Street, Dobbs Building, Raleigh, North Carolina. I am a  
5 Staff Accountant with the Accounting Division of the Public Staff –  
6 North Carolina Utilities Commission.

7 **Q. BRIEFLY STATE YOUR QUALIFICATIONS AND DUTIES.**

8 **A.** My qualifications and duties are included in Appendix A.

9 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

10 **A.** The purpose of my testimony is to present the accounting and  
11 ratemaking adjustments I am recommending regarding state Excess  
12 Deferred Income Taxes (EDIT), federal protected EDIT, and federal  
13 unprotected EDIT.

14 **Q. MS. BOSWELL, PLEASE DESCRIBE THE SCOPE OF YOUR**  
15 **INVESTIGATION INTO THE COMPANY'S FILING.**

16 **A.** My ongoing investigation includes a review of the application,  
17 testimony, exhibits, and other data filed by Carolina Water Service,

1 Inc. of North Carolina (Company). The Public Staff has and  
2 continues to conduct extensive discovery in this matter, including the  
3 review of numerous data responses provided by the Company in  
4 response to data requests and participation in conference calls with  
5 the Company.

6 **Q. PLEASE DESCRIBE YOUR RECOMMENDED ADJUSTMENTS.**

7 A. I do not currently have final recommendations relating to State  
8 Excess Deferred Income Taxes (EDIT) or Federal Excess Deferred  
9 Income Taxes related to the corresponding tax rate decreases. The  
10 Public Staff is awaiting information for the Company regarding these  
11 items, and will file supplemental testimony once the information has  
12 been received and reviewed.

13 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

14 A. Yes, it does.

**MICHELLE M. BOSWELL****Qualifications and Experience**

I graduated from North Carolina State University in 2000 with a Bachelor of Science degree in Accounting. I am a Certified Public Accountant.

I am responsible for analyzing testimony, exhibits, and other data presented by parties before this Commission. I have the further responsibility of performing the examinations of books and records of utilities involved in proceedings before the Commission, and summarizing the results into testimony and exhibits for presentation to the Commission.

I joined the Public Staff in September 2000. I have performed numerous audits and/or presented testimony and exhibits before the Commission addressing a wide range of electric, natural gas, and water topics. I have performed audits and/or presented testimony in Duke Energy's 2010 REPS Cost Recovery Rider; the 2008 REPS Compliance Reports for North Carolina Municipal Power Agency 1, North Carolina Eastern Municipal Power Agency, GreenCo Solutions, Inc., and EnergyUnited Electric Membership; Duke Energy Carolina LLC 2017 rate case, four recent Piedmont rate cases; the 2016 rate case of Public Service Company of North Carolina (PSNC), the 2012 rate case for Dominion Energy North Carolina (DENC, formerly Dominion North Carolina Power), Duke Energy Progress LLC 2013 and 2017 rate case, several Piedmont, NUI Utilities Inc. (NUI), and Toccoa

annual gas cost reviews; the merger of Piedmont and NUI; and the merger of Piedmont and North Carolina Natural Gas (NCNG).

Additionally, I have filed testimony and exhibits in numerous water rate cases and performed investigations addressing a wide range of topics and issues related to the water, electric, and telephone industries.



BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. W-354, SUB 360

In the Matter of  
 Application by Carolina Water Service, )  
 Inc. of North Carolina, 4944 Parkway )  
 Plaza Boulevard, Suite 375, Charlotte, )  
 North Carolina. 28217, for Authority to )  
 Adjust and Increase Rates for Water )  
 and Sewer Utility Service in All of its )  
 Service Areas in North Carolina, Except )  
 Corolla Light and Monteray Shores )  
 Service Area )

SUPPLEMENTAL  
 TESTIMONY OF  
 MICHELLE M. BOSWELL  
 PUBLIC STAFF – NORTH  
 CAROLINA UTILITIES  
 COMMISSION

**BEFORE THE NORTH CAROLINA UTILITIES COMMISSION**

**DOCKET NO. W-354, SUB 360**

**SUPPLEMENTAL TESTIMONY OF MICHELLE M. BOSWELL  
ON BEHALF OF THE PUBLIC STAFF  
NORTH CAROLINA UTILITIES COMMISSION**

**OCTOBER 12, 2018**

1 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND**  
2 **PRESENT POSITION.**

3 A. My name is Michelle M. Boswell. My business address is 430 North  
4 Salisbury Street, Dobbs Building, Raleigh, North Carolina. I am a  
5 Staff Accountant with the Accounting Division of the Public Staff –  
6 North Carolina Utilities Commission.

7 **Q. ARE YOU THE SAME MICHELLE M. BOSWELL WHOSE DIRECT**  
8 **TESTIMONY WAS FILED IN THIS DOCKET ON OCTOBER 4,**  
9 **2018?**

10 A. Yes.

11 **Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL**  
12 **TESTIMONY IN THIS PROCEEDING?**

13 A. The purpose of my supplemental testimony is to present the  
14 accounting and ratemaking adjustments I am recommending

1 regarding state Excess Deferred Income Taxes (EDIT), federal  
2 protected EDIT, federal unprotected EDIT, and the overcollection of  
3 federal taxes since January 1, 2018.

4 **Q. MS. BOSWELL, PLEASE DESCRIBE THE SCOPE OF YOUR**  
5 **INVESTIGATION INTO THE COMPANY'S FILING.**

6 A. My investigation included a review of the application, testimony,  
7 exhibits, and other data filed by Carolina Water Service, Inc. of NC  
8 (Company). The Public Staff has also conducted extensive  
9 discovery in this matter, including the review of numerous data  
10 responses provided by the Company in response to data requests  
11 and participation in conference calls with the Company.

12 **Q. PLEASE DESCRIBE THE ORGANIZATION OF YOUR EXHIBITS.**

13 A. Boswell Exhibit 1 presents the calculation of federal protected EDIT  
14 effects on the Company's rate base and income statement.

15 Boswell Exhibit 2 sets forth the calculation of an annual Federal  
16 Unprotected EDIT Rider to be in effect for three years.

17 **Q. PLEASE DESCRIBE YOUR RECOMMENDED ADJUSTMENTS.**

18 A. My adjustments are described below.

1

**STATE EXCESS DEFERRED INCOME TAXES**

2 **Q. PLEASE EXPLAIN WHY THE PUBLIC STAFF IS NOT**  
3 **RECOMMENDING AN ADJUSTMENT TO STATE EDIT.**

4 **A.** I am not recommending an adjustment to state EDIT in this case, as  
5 the Company has been amortizing the applicable regulatory asset  
6 over a three year period since its last rate case in Docket No. W-354,  
7 Sub 356.

8

**FEDERAL EXCESS DEFERRED INCOME TAXES**

9 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO FEDERAL EXCESS**  
10 **DEFERRED INCOME TAXES.**

11 **A.** In initial testimony, the Public Staff reserved the right to supplement  
12 its filing in this docket at a later date to include the flowback to  
13 ratepayers of EDIT related to the federal tax rate decrease. Late in  
14 its investigation, the Public Staff determined that it needed additional  
15 information from the Company to clarify the Company's position  
16 regarding how it intended to handle EDIT in this rate case  
17 proceeding, so that the Public Staff could make an informed  
18 recommendation. As a result, the Company provided the information  
19 requested by the Public Staff subsequent to the Public Staff's initial  
20 filing. I have reviewed the information provided by the Company, and  
21 recommend two adjustments based upon the information provided.

1 The federal EDIT consist of two categories, protected and  
2 unprotected. The protected EDIT are deferred taxes related to timing  
3 differences arising from the utilization of accelerated depreciation for  
4 tax purposes and another depreciation method for book purposes.  
5 These deferred taxes are deemed protected because the Internal  
6 Revenue Service (IRS) does not permit regulators to flow back the  
7 excess to ratepayers immediately, but instead requires that the  
8 excess be flowed back to ratepayers ratably over the life of the timing  
9 difference that gave rise to the excess, per IRC Section 203(e). EDIT  
10 resulting from all other timing differences are unprotected, and can  
11 be flowed back to ratepayers however quickly regulators deem  
12 reasonable.

13 Based upon the foregoing, I recommend three adjustments to flow  
14 the federal EDIT back to ratepayers, one relating to protected and  
15 two relating to unprotected.

16 First, I have made an adjustment to include the return of protected  
17 federal EDIT based upon the Company's calculation of the net  
18 remaining life of the timing differences. Boswell Exhibit 1 presents  
19 the impacts of the protected federal EDIT on rate base and the  
20 income statement. Public Staff witness Henry's Supplemental  
21 Exhibit I depicts the impact of the updated protected federal EDIT as  
22 shown on Boswell Exhibit 1.

1 For unprotected EDIT, I recommend removing the entire EDIT  
 2 regulatory liability associated with the unprotected differences from  
 3 rate base, and placing it in a rider to be refunded to ratepayers over  
 4 three years on a levelized basis, with carrying costs. The immediate  
 5 removal of unprotected EDIT from rate base increases the  
 6 Company's rate base, and mitigates regulatory lag that might occur  
 7 from refunds of unprotected EDIT not contemporaneously reflected  
 8 in rate base.

9 **Q. PLEASE EXPLAIN WHY THE UNPROTECTED EDIT SHOULD BE**  
 10 **REFUNDED TO RATEPAYERS OVER A THREE-YEAR PERIOD.**

11 **A.** The Company did not recommend any flowback of unprotected  
 12 federal EDIT relating to the Federal Tax Cuts and Jobs Act in the  
 13 present docket.

14 The tax normalization rules are very clear – either EDIT is protected  
 15 or it is not. Excess taxes that have been previously recovered in  
 16 rates, but will never be paid to the IRS, rightfully belong to the  
 17 ratepayers and should be returned to them as soon as reasonably  
 18 possible. It should be noted that the Company will continue to collect  
 19 accumulated deferred income taxes (ADIT) at a tax rate sufficient to  
 20 meet its tax obligations.

21 Furthermore, the Public Staff has provided the Company with the  
 22 benefit of removing the total amount of the unprotected EDIT credit

1 from rate base in the current case, thus providing the Company with  
2 an increase in rates to moderate any potential cash flow issues. The  
3 financing cost to the Company will be imposed ratably over the  
4 period that the EDIT is returned through the levelized rider.

5 **Q. WHAT IS THE PUBLIC STAFF'S POSITION REGARDING**  
6 **APPLYING THE UNPROTECTED EDIT REGULATORY LIABILITY**  
7 **AGAINST DEFERRED REGULATORY ASSETS?**

8 A. The Public Staff believes that in this case, offsetting known and  
9 measurable reductions in taxes to be paid going forward against  
10 either unknown future regulatory assets, or regulatory assets  
11 previously approved by the Commission for recovery over a specified  
12 period, presents significant intergenerational issues and constitutes  
13 inappropriate ratemaking. Existing deferred regulatory assets are  
14 the result of accounting adjustments approved or adopted by the  
15 Commission, the purpose of which typically is to spread the recovery  
16 of incurred costs over a specified period (the amortization period).  
17 The amortization period for each regulatory asset is approved by the  
18 Commission based upon its determination of what is fair and  
19 reasonable for the ratepayers with regard to the costs associated  
20 with that specific regulatory asset, or other specific factors taken into  
21 consideration by the Commission at the time of that approval.  
22 Choosing simply to offset the new unprotected EDIT regulatory  
23 liability with the remaining unamortized portion of any regulatory

1 asset would effectively override the Commission's prior decision as  
 2 to the appropriate amortization period for the regulatory asset, by  
 3 equalizing that remaining amortization period and the amortization  
 4 period for the new EDIT regulatory liability. The Public Staff believes  
 5 that the amortization periods for existing regulatory assets and the  
 6 unprotected EDIT regulatory liability should be determined  
 7 separately, based on the specific characteristics of each cost or  
 8 benefit. Departing from this transparent process in the course of a  
 9 general rate case simply to offset flowing through the benefit of  
 10 reductions in an entirely separate category of costs (income taxes)  
 11 is neither fair nor reasonable.

12 In the case of unknown future possible regulatory assets or other  
 13 costs, currently offsetting them against the EDIT liability would  
 14 likewise be inappropriate, not only because those costs are not  
 15 currently known and actual, but also because doing so would be  
 16 prejudging the appropriate amortization period for those future costs.

17 **Q. WHAT IS YOUR RECOMMENDATION REGARDING HOW THE**  
 18 **COMPANY SHOULD REFUND THE OVERCOLLECTION OF**  
 19 **FEDERAL TAXES DUE TO THE FEDERAL TAX CUTS AND JOBS**  
 20 **ACT SINCE JANUARY 1, 2018?**

21 **A.** I recommend that the Company refund to ratepayers the  
 22 overcollection of federal taxes related to the decrease in federal tax



1 rates for the period beginning January 1, 2018. Additionally, I  
2 recommend that the refund include corresponding interest calculated  
3 at the overall weighted cost of capital, and that it be made as a  
4 surcharge credit for a one-year period beginning when the new base  
5 rates become effective in the current docket. The Company did not  
6 file a proposal to return the overcollection.

7 **Q. WHAT IS THE PUBLIC STAFF'S POSITION ON WHETHER THE**  
8 **COMPANY SHOULD BE ABLE TO RETAIN THE**  
9 **OVERCOLLECTION OF TAXES SINCE JANUARY 1, 2018?**

10 A. The Public Staff believes the Commission's October 8, 2018, Order  
11 in Docket M-100, Sub 148 was explicitly clear that the overcollection  
12 of taxes since January 1, 2018 should be flowed back to ratepayers.  
13 These funds rightfully belong to the ratepayers and should be  
14 returned to them as soon as reasonably possible.

15 **Q. DOES THE PUBLIC STAFF BELIEVE THE COMPANY SHOULD**  
16 **RETURN THE OVERCOLLECTION OF TAXES EVEN IF THE**  
17 **COMPANY DID NOT EARN ITS THEN APPROVED RATE OF**  
18 **RETURN?**

19 A. The approved rate of return in any general rate case represents the  
20 amount the Company has the potential to earn, with proper  
21 management. It does not represent guaranteed dollars or return for

1 the Company. The actual return earned by a utility fluctuates over  
2 time, and may fall below the approved rate of return for significant  
3 periods of time. Nevertheless, it is ultimately the utility's choice as to  
4 when it should file for a general rate increase; otherwise, its rates as  
5 they exist at any moment in time are generally presumed to recover  
6 its costs. In this particular instance, even if the Company has not  
7 been recovering its currently approved rate of return during 2018,  
8 applying the future Commission-mandated refund of overcollected  
9 income taxes against that past return deficiency would, in principle,  
10 constitute inappropriate retroactive ratemaking. The tax  
11 overcollection in question was to be used to pay taxes that the  
12 Company expected to owe. As of January 1, 2018, the overcollected  
13 taxes are no longer owed. The overcollection is ratepayer money  
14 that should not be utilized to assist the Company in attaining its  
15 return, and thus benefit its shareholders.

16 **Q. WHY SHOULD THE INTEREST BE CALCULATED AT THE**  
17 **OVERALL WEIGHTED COST OF CAPITAL?**

18 A. The interest should be calculated at the overall weighted cost of  
19 capital since the same methodology is utilized to calculate the  
20 revenue impacts of the collected taxes. Utilizing a lower rate would  
21 shortchange the ratepayers the full value of the refund.

22 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

1 A. Yes, it does.

1 BY MS. HOLT:

2 Q. Do you have a summary of your testimony?

3 A. I do.

4 Q. Please read it.

5 A. The purpose of my testimony is to provide  
6 recommendations relating to the excess deferred income  
7 taxes for EDIT associated with the decrease in state  
8 and federal tax rates. I have recommended several  
9 adjustments relating to the reduction of federal taxes  
10 due to the Federal Tax Cuts and Jobs Act and the  
11 reduction in state income taxes. Boswell Exhibits 1  
12 and 2 set forth the accounting and ratemaking  
13 adjustments to federal protected EDIT and federal  
14 unprotected EDIT.

15 First, I made an adjustment to include the  
16 return of protected federal EDIT based upon the  
17 Company's calculation of the net remaining life of  
18 depreciation rate timing differences. These  
19 differences are deemed protected because the Internal  
20 Revenue Service does not permit regulators to flow back  
21 the excess to ratepayers immediately, but instead  
22 requires the excess to be flowed back to ratepayers  
23 ratably over the life of the timing differences that  
24 gave rise to the excess.

1           Second, for federal unprotected EDIT, which  
2 are excess deferred taxes that result from all other  
3 timing differences, and can be flowed back to  
4 ratepayers however quickly regulators deem reasonable,  
5 I recommend removing the EDIT regulatory liability  
6 associated with the unprotected differences from rate  
7 base, thus increasing rate base, and placing it in a  
8 rider to be refunded to ratepayers over three years on  
9 a levelized basis with carrying costs calculated  
10 utilizing the weighted average cost of capital approved  
11 in this case.

12           The Company has proposed to treat the  
13 unprotected EDIT differently. The tax normalization  
14 rules are very clear: Either EDIT is protected or it  
15 is not. The EDIT that the Company designates as  
16 similar to protected is still clearly unprotected.  
17 Accordingly, the Public Staff disagrees with the  
18 Company's proposal to treat unprotected EDIT in this  
19 manner.

20           Third, I have not made an adjustment to the  
21 state EDIT regulatory liability, as the treatment of  
22 the liability has been proposed and approved in prior  
23 rate cases.

24           Finally, regarding a non-EDIT issue, I

1 recommend returning the over-collection of federal  
2 taxes from January 1, 2018, to present in a rider over  
3 a one-year period with carrying costs calculated  
4 utilizing the weighted cost of capital approved in this  
5 case.

6 This concludes my summary.

7 Q. Thank you.

8 MS. HOLT: The witnesses are available  
9 for cross.

10 CROSS EXAMINATION BY MS. FORCE:

11 Q. I have a question, I think it's for  
12 Ms. Boswell, and I'm going to ask you to -- I should  
13 have had this written out, because this EDIT  
14 terminology can get me confused.

15 But you've recommended, as I understand it, a  
16 three-year period -- rider for return of the  
17 unprotected EDIT?

18 A. (Michelle Boswell) That is correct.

19 Q. And just to clarify, I think earlier in  
20 direct testimony from the Company's witness, the -- it  
21 sounds like all of the unprotected is not plant --  
22 there is no distinction that's being drawn by the  
23 Company any longer between 20-year and 5-year return?

24 A. Correct. It is my understanding that the

1 Company no longer segregates the amounts and just  
2 wishes for the unprotected to either be amortized over  
3 five years or they made some additional recommendations  
4 within the confines of the rebuttal testimony.

5 Q. Right. And that was just -- that just came  
6 up in rebuttal when it was filed on Friday; am I right?

7 A. Correct.

8 Q. Okay. And as to the three-year period that  
9 you recommend, that is what was adopted -- or was  
10 agreed to in the Aqua case that was just heard by the  
11 Commission; is that right?

12 A. It was agreed on in settlement, yes.

13 Q. In settlement. Okay.

14 And was it your recommendation to use three  
15 years in that case?

16 A. It was also my recommendation, yes.

17 Q. Now, as I recall, in the Duke Carolinas case,  
18 there was also an issue that came up. It was postponed  
19 in the Commission's order.

20 But initially, didn't you recommend that the  
21 return of the unprotected excess deferred income taxes  
22 be returned to customers in two years, and then it was  
23 changed later in supplemental testimony on further  
24 review to five years; am I getting mixed up?

1           A.       We did recommend two years.  And in -- I  
2       forget what addition of my supplemental testimony in  
3       that case, we recommended that it could go up to five  
4       years.

5           Q.       Up to five years.

6           A.       So we gave a range.

7           Q.       So as I recall, in your testimony when you  
8       recommended two years, it was part of your testimony  
9       that, by giving the Company two years to return the  
10      money, it -- that's the excess EDIT, that would provide  
11      enough time to get the rider in place and return those  
12      monies.

13                    Is your -- is it possible to have a rider  
14      that would take two years rather than three, in this  
15      case, so that the return to ratepayers would be more  
16      prompt than three years?

17           A.       It is feasible.  It's within the range that  
18      we have proposed in other cases.

19           Q.       Okay.  And realizing -- I believe, under the  
20      testimony that you gave in this case, you made  
21      adjustments to rate base, as I understand it, and also  
22      to the amount involved factoring it over a three-year  
23      period --

24           A.       Correct.



1 Q. -- am I understanding that right? Okay.

2 Thank you.

3 MS. FORCE: I don't have any other  
4 questions.

5 CHAIRMAN FINLEY: All right.

6 CROSS EXAMINATION BY MS. SANFORD:

7 Q. Thank you. I have some questions of  
8 Ms. Johnson, so I need to lean around.

9 Ms. Johnson, I wanted to talk a little bit  
10 about your adjustment on the executive compensation,  
11 the 50 percent adjustment.

12 A. (Sonja Johnson) Okay.

13 Q. I think it was your first supplemental  
14 testimony in which you describe the Public Staff  
15 adjustment to remove 50 percent of the base salary  
16 allocated to CWSNC for three executive employees of  
17 Utilities, Inc.

18 Have I said that correctly?

19 A. Yes.

20 Q. Okay. Do you -- are you aware of the regular  
21 tasks and responsibilities of these three positions of  
22 the incumbents?

23 A. The day-to-day tasks of these incumbents?

24 No. But, in general, for presidents and CEOs, I have a

1 pretty good idea of what it is they're tasked with  
2 doing.

3 Q. Okay. And I should ask you to name the  
4 positions, if you would.

5 A. President, president CEO, and then it was  
6 legal counsel.

7 Q. General?

8 A. Yeah.

9 Q. I think it was general counsel; is that  
10 right?

11 A. Uh-huh, yes.

12 Q. And then there was a third?

13 A. Oh, wait, hold on. There was president, and  
14 then there was another president CEO, and then there  
15 was general counsel. So those are three.

16 Q. I see. And so the Public Staff didn't do any  
17 kind of specific study about their job descriptions, or  
18 what they did, or -- you just -- you just based your  
19 decision on your general knowledge about what those  
20 corporate officers usually do; is that correct?

21 A. And based on receipt of documentation  
22 received from the Company, in terms of short-term  
23 incentives, long-term incentives. I kind of know that  
24 part of their job is to increase the Company's share.

1 Q. Did -- you know, of course, that Utilities,  
2 Inc. is owned by -- is not a publicly traded company?

3 A. Correct.

4 Q. Right. And so did you consider, when you  
5 made your recommendation, whether there are any  
6 different kinds of qualities or responsibilities that  
7 are exercised by the executives of that company as  
8 opposed to, say, Duke, some other regulated company  
9 that does have shareholder and publicly traded  
10 responsibilities?

11 A. No. I didn't think there would be any  
12 differentiation between what the head of one company  
13 did and what the head of another company did,  
14 regardless of size or industry.

15 Q. So you saw no distinction between a company  
16 that has to be -- because they are publicly traded, has  
17 to deal with the stock market and lots and lots of  
18 shareholders versus one that has, essentially, one  
19 shareholder?

20 A. Basically I was of the thought that the CEO,  
21 president, legal counsel, they are responsible to that  
22 one shareholder or 100,000 shareholders, it doesn't  
23 matter. They have someone that they have to answer to.

24 Q. Do -- so you said you got some information

1 about compensation from the Company.

2           Could you tell us what else you got from the  
3 Company that helped support your decision?

4           A.     I received pay statements from the Company.  
5 Or we had in our receipt, pay statements from the  
6 Company, some of which encompassed the test year that  
7 we are here to discuss, discussions over the telephone  
8 with Company representative.

9           Q.     Do you remember who the Company  
10 representatives were?

11          A.     Anthony Gray.

12          Q.     Anthony. Okay. Thank you. All right.

13                 And so pay statements, compensation  
14 informations, discussions with Mr. Gray, those were the  
15 basis of -- that plus your general understanding of  
16 what executives do?

17          A.     Correct.

18          Q.     All right.

19                 MS. SANFORD: Thank you. I have no more  
20 questions.

21                 MR. BENNINK: Mr. Chairman, I'm going to  
22 ask questions of Mr. Henry. We agreed to divide  
23 that, if that's okay.

24                 CHAIRMAN FINLEY: All right.

1 CROSS EXAMINATION BY MR. BENNINK:

2 Q. Mr. Henry, I want to start out first with a  
3 discussion of the Public Staff's adjustment to cash  
4 working capital.

5 A. (Windley Henry) Yes.

6 Q. First of all, can you state for the record  
7 what cash working capital is meant to be?

8 A. It's meant to provide a source of revenues  
9 for the Company in order to pay their bills in between  
10 the time service is provided and they receive the  
11 revenues from -- for providing those services to  
12 customers.

13 Q. And can you state for the record how the  
14 Public Staff comes up with its allocation of cash  
15 working capital, or your determination of what amount  
16 of cash working capital to allow in rates?

17 A. We calculate it as -- we use the formula  
18 method, which is one-eighth of operating maintenance  
19 expenses less purchased water and purchased sewer.

20 Q. And is purchased water and sewer the only O&M  
21 expense that you exclude from the calculation?

22 A. We don't include depreciation, amortization,  
23 taxes, anything like that.

24 Q. You primarily include cash-type expenses; is

1 that correct? Or is that the correct terminology?

2 A. Yes.

3 Q. And in this case, the Company doesn't dispute  
4 the formula method, does it?

5 A. No. The Company used the exact same formula  
6 method that I use in my -- in my supplemental schedule  
7 as they did on the application.

8 Q. But in the Company's rebuttal testimony, they  
9 are asking that purchased water and sewer expenses be  
10 included as part of that calculation, correct?

11 A. That is correct.

12 Q. And can you state for the record why the  
13 Public Staff does not include those expenses as part of  
14 the calculation?

15 A. That's a good question. And I've done a lot  
16 of research on it, and I can't find the exact reason  
17 why, but it has been done this way for years. Even in  
18 the gas industry, way back before the lead-lag study,  
19 and then the electric industry as well.

20 Q. Let me ask you --

21 A. But I would say that the reason -- in  
22 general, the reason behind it is there is no lag time  
23 between the time the service is being provided --  
24 between the time that the cost of -- the cost of the

1 water -- purchased water and sewer costs are being paid  
2 for by the Company, in general.

3 Q. All right.

4 A. But I don't know that for sure.

5 Q. All right. And just to go back again to  
6 clarify, I think you did agree that purchased water and  
7 sewer expenses would be basically considered cash  
8 expenses?

9 A. Yes.

10 Q. And in that sense, they're really no  
11 different in nature from the remaining operating and  
12 maintenance expense items that you do agree to include,  
13 are they?

14 A. I'm not sure. I just don't have all the  
15 information that we evaluated back in the day to  
16 come -- to exclude these purchased water and sewer  
17 costs. It's been done this way for years.

18 Q. All right. Now, you made a statement that  
19 purchased water and sewer expenses are subject to  
20 recovery, I guess, and I'll use the term outside the  
21 context of a general rate case; is that --

22 A. Yes. You can apply for a passthrough to have  
23 your rates adjusted for increases that local  
24 municipalities charge you for the cost for your

1 purchased water and sewer.

2 Q. That's right. But even there, as a general  
3 rule, there's still a lag in that passthrough, isn't  
4 there?

5 A. We usually turn those passthroughs around  
6 pretty quickly. So if you know that a municipality is  
7 going to increase your rates, say, for instance, in  
8 June, you can prepare for that rate increase in June  
9 and -- actually apply for it in June, and you could  
10 have those rates in effect probably in July.

11 Q. But in many instances -- or would you agree  
12 that there are instances where the Company may not know  
13 until, basically, the effective date of that increase  
14 from its purchased water or sewer supplier of that  
15 increase?

16 A. I don't know what --

17 Q. As a matter of timing.

18 A. I guess it depends on how aware that the  
19 Company is of rate increases that's going to be imposed  
20 by the municipality. I mean, if I knew that every June  
21 that there's a possibility that the rates would  
22 increase, then I would prepare for that sometime before  
23 that particular date and time.

24 Q. Let's say the city council has a rate



1 increase going into effect July 1 and doesn't reach a  
2 decision to actually approve that increase until  
3 shortly beforehand, the Company can't file an  
4 application or prepare an application until it actually  
5 knows what the increase is going to be, can it?

6 A. Yes. You have to include the rate increase  
7 in your application, but you can always prepare ahead  
8 of time to have your schedules and calculations done in  
9 anticipation of what the rate increase might be.

10 Q. And then once the application is filed,  
11 Public Staff has to evaluate it, and then you have to  
12 take it to the Commission at a Monday morning staff  
13 conference for approval, correct?

14 A. Yeah. We turn those around pretty quickly.

15 Q. But there is at least some degree of lag  
16 involved there?

17 A. There is some regulatory lag, but not as long  
18 as a rate case, no.

19 Q. And I know we've prepared -- I've been  
20 involved in preparing applications where we ask the  
21 rate increase to be effective as the date, that it is  
22 imposed by the supplier. But the Commission never  
23 approves that in those cases, does it? It approves the  
24 rates to come effective whenever the order is issued?

1 A. That's correct.

2 Q. One other thing. The passthrough only  
3 applies to purchased water systems where 100 percent of  
4 the commodity, water or sewer, is purchased; isn't that  
5 correct?

6 A. I'm not totally sure about that. I would  
7 have to consult with our engineers on that.

8 Q. So would you accept that, subject to check?

9 A. Yes.

10 Q. And by that, I mean, if Carolina Water  
11 Service has a system that it serves and it does meet  
12 part of the customer demand by its own wells but it has  
13 to purchase additional purchased water, that type  
14 transaction is not subject to a passthrough proceeding?  
15 And I'll ask you to accept that, subject to check.

16 A. The water that they pump themselves is not  
17 subject to the passthrough.

18 Q. No. The water that they purchase from their  
19 wholesale supplier.

20 A. I think I'm confused about your question.  
21 Could you repeat it?

22 Q. Yeah, I'll try to repeat it.

23 At the very least, we're certainly talking --  
24 there is a passthrough for water purchases and sewer

1 purchases for systems that purchase 100 percent of the  
2 capacity that they use for -- to serve their customers;  
3 would you agree with that?

4 A. Yes.

5 Q. The question that I'm asking is, if you have  
6 a water system where Carolina Water Service provides  
7 50 percent of the water from its own wells but it has  
8 to purchase 50 percent of the water from a wholesale  
9 supplier, the water they purchase from the wholesale  
10 supplier is not subject to the passthrough procedure,  
11 is it?

12 A. I'm not sure about that. No, I don't -- I'm  
13 not sure.

14 Q. Will you accept that, subject to check?

15 A. I don't know if I can say subject to check  
16 either, because I just don't know.

17 Q. Well, I mean, you can check with other Public  
18 Staff members, can't you?

19 A. I could, yeah.

20 Q. And, hypothetically, if that's true, then  
21 there is no recovery from that cost of commodity  
22 outside of a general rate case perspective?

23 A. It just seems odd that, you know, if you have  
24 a mix of purchase versus pumped, you should still be

1 able to come in to have those purchased water costs  
2 passed to the customers.

3 Q. Well, we might agree with you, but whether  
4 that's the case or not, we'll have to determine, won't  
5 we?

6 All right. Let's move on. I want to talk to  
7 you now about insurance expense. Witness Feasel  
8 allocated the insurance premiums paid by Utilities,  
9 Inc. based on a variety of factors.

10 And, for instance, can you tell us how she  
11 allocated automobile insurance?

12 A. (Witness peruses document.)

13 She based it on the number of vehicles as a  
14 percentage of total vehicles for Carolina Water.

15 Q. That's right.

16 And how did she allocate workers'  
17 compensation insurance?

18 A. Payroll.

19 Q. And how did she allocate property insurance?

20 A. By property located in North Carolina.

21 Q. Now, in its application, the Company proposed  
22 to allocate those three categories of insurance based  
23 upon customer count, didn't it?

24 A. Yes. And we disagree with those. We

1 allocated these three types of insurance policy using  
2 factors that don't -- that directly resemble the costs  
3 that are being incurred here in North Carolina instead  
4 of customers. By using customers, you're allocating  
5 costs from other states in North Carolina, which  
6 hasn't -- which shouldn't -- which should not be done.

7 Q. Now, would you look at your Supplemental  
8 Exhibit 1, Schedule 3-12A.

9 A. Schedule 3 dash?

10 Q. 3-12A.

11 A. (Witness peruses document.)

12 Q. Are you there?

13 A. Yes, I am.

14 Q. I'm sorry. I see there that you got 10  
15 categories of insurance premiums or insurance coverage,  
16 correct?

17 A. Yes.

18 Q. And the first three are the three that we've  
19 been discussing, and they indicate in -- under the  
20 column B, headed "CWSNC percentage," they indicate how  
21 you have allocated them, as you've described in your  
22 testimony today, correct?

23 A. Correct.

24 Q. For the other seven categories, beginning

1 with general liability, this indicates that those  
2 allocations were based on CWSNC's proposal to utilize  
3 customer account; is that correct?

4 A. Yes.

5 Q. So 7 of the 10 are allocated based on  
6 customer count?

7 A. Yes, because you cannot actually distinguish  
8 those items in North Carolina. This is Utilities, Inc.  
9 companywide policies, and they -- you can't actually  
10 allocate those costs. You can't directly assign those  
11 costs to North Carolina, so that's why we use the  
12 customer count.

13 Q. Now, in Mr. DeStefano's -- in his rebuttal  
14 testimony, he contends that there are many factors that  
15 can be considered to varying degrees when an insurance  
16 provider determines that particular company's policy  
17 premium; do you agree with that?

18 A. I guess -- I guess so.

19 Q. I mean, he lists rating territory, urban  
20 versus rural, vehicle type and storage, vehicle age,  
21 original cost, and claims history.

22 Are those all -- are those all factors that  
23 would be -- that you would think could be --

24 A. I would think so.

1 Q. -- used in the insurance rating?

2 A. I would think so, yes.

3 Q. Now, your allocation methodology basically  
4 picks out one of those factors for use, correct?

5 A. Yeah. The ones that we have used in prior  
6 rate cases.

7 Q. Now, did you use those factors in the  
8 Company's last rate case, Sub 356?

9 A. I don't recall. If it wasn't, we should  
10 have.

11 Q. All right. Would you accept, subject to  
12 check, my statement that you didn't use those, that, in  
13 fact, insurance expense was calculated based on  
14 customer count in that case?

15 A. Will you repeat the question, please?

16 Q. Would you accept, subject to check, that in  
17 the Sub 356 case, insurance expense was allocated  
18 across all of these categories based upon customer  
19 count?

20 A. Yes, subject to check. But I just don't  
21 recall why we did not allocate it based on what we've  
22 done in prior rate case. I'm sure that we've done it  
23 in the Sub 319 rate case and rate cases prior to that.

24 Q. And do you know how Utilities, Inc., or how

1 these insurance costs are allocated from Utilities,  
2 Inc. down to its separate operating companies or  
3 subsidiaries?

4 A. By customer count.

5 Q. So Carolina Water Service's proposal, in this  
6 case, is consistent with the allocation methodology  
7 utilized by Utilities, Inc.; is that correct?

8 A. Yes, it is consistent, but we're saying that  
9 it should not be done that way. It should be based  
10 on -- it should be allocated more directly toward  
11 what's causing the insurance premium in each state.

12 Q. And do you know the amount of the Public  
13 Staff's adjustment to insurance expense based on your  
14 allocation methodology?

15 A. Not the adjustment.

16 (Witness peruses document.)

17 If you turn to my Supplemental Exhibit 1,  
18 Schedule 3A, page 1 of 2, the adjustment to insurance  
19 expense for CWS uniform water operation is \$71,000.  
20 CWS sewer operation is \$42,000. For Fairfield Farms  
21 and Fairfield Harbor, it's \$14,000, and -- for water  
22 operations, and for sewer operations it's also \$14,000.

23 Q. And could we agree that that is more than  
24 \$140,000 adjustment?



1 A. That's correct. I agree with you on that.

2 Q. And that's a pretty significant adjustment  
3 for this case, isn't it?

4 A. Yes, significant and appropriate.

5 Q. And based upon the way that Utilities, Inc.  
6 allocates insurance premiums and insurance costs, based  
7 on customer count, following your methodology, the  
8 Company will never be able to fully recover through  
9 expense and rates, the allocation portion -- the  
10 allocated portion of insurance expense, will it?

11 A. The Company will be able to recover the costs  
12 that -- insurance costs that -- well, ratepayers  
13 shouldn't bear more costs than they are entitled to  
14 based on allocations from Utilities, Inc. based on  
15 customers.

16 Q. All right. But my question was, Carolina  
17 Water Service will never be allowed to -- under your  
18 methodology -- to recover through rates the allocated  
19 insurance expense that comes to it from Utilities,  
20 Inc., which -- if it is based on customer count?

21 A. Carolina Water would not be able to  
22 over-recover the insurance cost being allocated from  
23 Utilities, Inc. from ratepayers. That's my answer to  
24 your question.

1 Q. And so it's your testimony that Utilities,  
2 Inc. -- the allocation methodology based upon customer  
3 count utilized by Utilities, Inc. is incorrect and  
4 unfair?

5 A. I do.

6 Q. All right. Let's move on to CIAC and PAA.  
7 I'm sorry, excuse me, I'm having trouble finding my  
8 page here. There it is. Needed to turn the right page  
9 over. Sorry about that.

10 Can you tell us how the Public Staff has  
11 calculated the annual amortization expense for both  
12 CIAC and PAA?

13 A. We've calculated a composite depreciation  
14 rate and applied it to the CIAC balances. The Public  
15 Staff adjusted CIAC and PAA balances.

16 Q. And PAA is purchase acquisition adjustment?

17 A. Yes, it is.

18 Q. So what you've done is to take the overall  
19 depreciation rate for the Company and use it for both  
20 of those categories of expense; is that correct?

21 A. Yes, that's correct. And this is what we've  
22 done in every rate case that I worked on for Carolina  
23 Water, CWS Systems, Transylvania, all of the companies  
24 owned by Utilities, Inc. in North Carolina.

1 Q. And what's the basis for using the overall  
2 composite rate depreciation rates there?

3 A. For one thing, there was a lot of problems  
4 with the recording of CIAC by Carolina Water in prior  
5 years. There were a lot -- and PAA as well. Also,  
6 there's a portion of CIAC which is tap-on fees that is  
7 not directly allocated to a particular plan account.  
8 So in order to utilize -- in order for the customer to  
9 take advantage of those tap-on fees, we calculated a  
10 composite depreciation rate to reduce the amount of PAA  
11 as well as CIAC.

12 Q. Now, with reference to the problems that  
13 you've alluded to in the past with Carolina Water  
14 Service, have those problems been solved?

15 A. As far as I know, they have been.

16 Q. But yet you still maintain that the same  
17 policy of using the overall depreciation rate --  
18 composite depreciation rate should apply?

19 A. Correct.

20 Q. And why shouldn't there be a change if that  
21 situation has changed?

22 A. The tap-on fee situation has not changed.  
23 They still got a problem with recording the right  
24 amount tap-on fees in each plan account, so we still

1 think it's necessary to use composite depreciation  
2 rate.

3 Q. And what the Company is proposing for both of  
4 these groups is not a proxy which is the composite  
5 appreciation rate, but they want to use the actual  
6 amortization rates for each of the applicable accounts;  
7 isn't that correct?

8 A. Yes.

9 Q. And what's wrong with that?

10 A. In theory, there's nothing wrong with it, but  
11 for this particular company, the problems that we've  
12 had in the past with them, we think it's appropriate to  
13 continue to use the composite depreciation rate.

14 Q. But you just said that those problems no  
15 longer exist.

16 A. I did. I said the errors in recording CIAC.  
17 I said the tap-on fee problem is still there.

18 Q. And how significant is the tap-on fee  
19 problem? I mean, can you quantify that?

20 A. I can't quantify it, no. Tap-on fees, you  
21 can't directly assign them to a plan account, and  
22 that's going to always be there.

23 Q. Isn't it true that what can be directly  
24 assigned should match the depreciation rates of the

1 Company?

2 A. That's true in theory, yes.

3 Q. And is that being done in this particular  
4 case?

5 A. No. We are being consistent with what we've  
6 done in prior rate cases, and that's capital A  
7 composite depreciation rate and apply it to CIAC and  
8 PAA.

9 Q. Now, let me ask you, what is the amount of  
10 your adjustment for PAA?

11 A. (Witness peruses document.)

12 For CWS uniform water, it's \$11,547; for  
13 uniform sewer, it's \$7,739; for Fairfield Farms,  
14 Fairfield Harbor, it's \$1,395; and for Fairfield Farms,  
15 Fairfield Harbor sewer operation, it's \$35,721.

16 Q. All right. And just my rough calculation,  
17 I'm going to say the PAA adjustment is approximately  
18 \$38,000.

19 Would you accept that, subject to check?  
20 Does that sound right?

21 A. \$38,000, that's about right.

22 Q. And would you accept, subject to check, that  
23 the CIAC adjustment is approximately \$296,000?

24 A. I accept that, subject to check.

1 Q. And that would bring the total to -- for both  
2 adjustments, approximately \$334,000 in this case?

3 A. I accept that, subject to check.

4 Q. Thank you.

5 And that's a significant adjustment in this  
6 case, isn't it?

7 A. Yes, significant and appropriate.

8 Q. But it is significant?

9 A. It is significant and appropriate.

10 Q. And to the extent that the Company doesn't  
11 recover more than \$300,000 in rates in this proceeding,  
12 are they in a position to ever recover that?

13 A. I just -- I guess I'm a little confused when  
14 you say "recover PAA."

15 Q. This reduces their revenue requirement --  
16 these two adjustments reduce their revenue requirement  
17 by approximately \$334,000, correct?

18 A. That's correct.

19 Q. And they will not collect that during the  
20 period of time that these rates are in effect, under  
21 your position?

22 A. That is correct.

23 Q. And the question is, then -- is, will they  
24 ever be able to recover those amounts that they're

1 being -- that would be disallowed under this  
2 adjustment?

3 A. They would not be, no.

4 MR. BENNINK: All right. That's all I  
5 have. Thank you.

6 CHAIRMAN FINLEY: Those are the  
7 questions of the Company?

8 MS. SANFORD: No more questions.

9 CHAIRMAN FINLEY: Redirect?

10 REDIRECT EXAMINATION BY MS. HOLT:

11 Q. Mr. Henry, you just had many questions  
12 regarding why the Public Staff treated insurance  
13 expense a certain way, cash working capital, CIAC, PAA  
14 certain ways?

15 A. (Windley Henry) Yes.

16 Q. And the impact of it on the Company's revenue  
17 requirement --

18 A. Yes.

19 Q. -- is that correct?

20 And for one item regarding cash working  
21 capital and the Public Staff's removal of purchased  
22 water expenses, et cetera.

23 My question to you is -- and you also  
24 responded that this is the way the Public Staff has

1 always done it?

2 A. From my experience, this is the way it's been  
3 done since I've been here with the Public Staff. And  
4 this is the way the Company filed it as well.

5 Q. Okay. So in other words, these adjustments,  
6 these approaches have been used consistently by the  
7 Public Staff?

8 A. Yes, they have been.

9 Q. And in making -- and in doing our  
10 investigation, making our audits, would you say it's --  
11 it's correct in saying that you did not change anything  
12 in order to affect the Company's revenue requirement?

13 A. No, it's just being consistent from rate case  
14 to rate case.

15 Q. Thank you.

16 MS. HOLT: I would also like to hand out  
17 a redirect exhibit. This exhibit's been marked as  
18 Public Staff Panel Redirect Exhibit 1 for  
19 identification. And I would like to --

20 CHAIRMAN FINLEY: Hold on. So mark it.  
21 (Public Staff Panel Redirect Exhibit  
22 Number 1 was marked for identification.)

23 MS. HOLT: Thank you. Sorry for jumping  
24 ahead.



1 BY MS. HOLT:

2 Q. And I'd like to direct questions on this  
3 exhibit to witness Johnson.

4 Ms. Johnson?

5 A. (Sonja Johnson) Yes. I'm sorry, I didn't  
6 know you were expecting an answer. Okay, I'm ready.

7 Q. I'd like to direct your attention to the  
8 exhibit I just passed out.

9 A. Okay.

10 Q. The first page is entitled "Duke Energy  
11 Progress," and it references Docket Number  
12 E-2, Sub 1142.

13 A. Okay.

14 Q. And that's from page -- dealing with pages 1  
15 to 2. And on page 3, the heading is -- it pertains to  
16 Duke Energy Carolinas, or DEC.

17 A. Okay.

18 Q. So there're two different -- two different --  
19 we're talking about two different things. Two  
20 different companies.

21 A. Right.

22 Q. Is it your understanding that DEP and DEC, if  
23 you could see -- could you read -- first of all, could  
24 you read the highlighted narrative on page 2?

1           A.       "The pro forma adjustments -- the pro forma  
2 adjustments operation and maintenance expense and  
3 income taxes for officers' compensation. The impact to  
4 operation and maintenance expense is determined as  
5 follows: Eliminate 50 percent of the compensation of  
6 the four Duke Energy executives with the highest level  
7 of compensation allocated to Duke Energy Progress in  
8 the test period."

9           Q.       Okay. Is it your understanding that, for DEP  
10 in this case, these expenses were removed in  
11 recognition of work done on behalf of the shareholders,  
12 not the customers?

13          A.       That is my understanding.

14          Q.       And is this an agreement with the Public  
15 Staff principal position that work and loyalties are  
16 divided between shareholders and customers?

17          A.       Yes. It is consistent with the methodology  
18 that the Public Staff believes.

19          Q.       And was that the basis of your adjustment in  
20 this case?

21          A.       Yes, it was.

22          Q.       And in going to page 3, with reference to  
23 DEC.

24          A.       Okay.

1 Q. Could you also read the highlighted  
2 narrative?

3 A. "This pro forma adjusts operation and  
4 maintenance expense and income taxes for officers'  
5 compensation. The impact to the operation and  
6 maintenance expense is determined as follows:  
7 Eliminate 50 percent of the compensation of the four  
8 Duke Energy executives with the highest level of  
9 compensation allocated to Duke Energy Carolinas in the  
10 test period."

11 Q. Thank you. Now, is it your understanding  
12 that, with respect to DEC as well, that we remove these  
13 expenses in recognition of work done on behalf of  
14 shareholders?

15 A. Yes.

16 Q. And is this also an agreement with the Public  
17 Staff's position that the work and loyalties are  
18 divided between the shareholders and customers?

19 A. Yes, it is.

20 Q. Thank you.

21 MS. HOLT: I have no further redirect.

22 CHAIRMAN FINLEY: All right.

23 EXAMINATION BY CHAIRMAN FINLEY:

24 Q. I have a few questions for you, Ms. Johnson,

1 this topic that you will just talking to Ms. Holt  
2 about?

3 A. (Sonja Johnson) Okay.

4 Q. Who are the three -- give me the names of the  
5 three executives whose salary and compensation you have  
6 requested disallowance?

7 A. Lisa Sparrow, James Devine, and -- hold on,  
8 Laura Granier (phonetic spelling).

9 Q. Have you looked at what the Company maintains  
10 the duties and responsibilities of those three  
11 executives are?

12 A. Directly from them?

13 Q. Yes.

14 A. Outside of an informal telephone call, no.

15 Q. All right. What specific duties, if any,  
16 have the execute -- these executives of Utilities, Inc.  
17 performed during the test year that were solely for the  
18 benefit of the stockholders and were completely not for  
19 the benefit of the customers?

20 A. Specifically, I do not know. What I do know  
21 is that bonuses were received for increasing their  
22 share -- their earnings per share. So I do know that  
23 it had -- that the bonuses that they received was a  
24 direct result of them increasing the shareholders'

1 profits, for lack of a better word.

2 Q. And you heard that Utilities, Inc. is owned  
3 by Corix, and Utilities, Inc. is not a publicly traded  
4 company, but Corix is the one that has the more than  
5 one shareholder?

6 A. Yes.

7 Q. Do these executives, as far as you know,  
8 attend any directors' meetings?

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

10 Q. Do you know whether they attended any  
11 stockholders' meetings?

12 A. I do not know. The board of directors'  
13 minutes was not reviewed by myself, but.

14 Q. Do you know whether they provided any  
15 proxy -- shareholder proxy materials?

16 A. I don't know.

17 Q. Okay. Stockholder reports?

18 A. I do not know.

19 Q. Do you know whether they had provided  
20 communications or informations to keep the stockholders  
21 comfortable with the investment so that the investors  
22 in Corix would have maintained their investment and  
23 enable the Company to provide service to its customers?

24 A. That sounds like one of the duties that a CEO

1 would have.

2 Q. All right. You know -- you understand, do  
3 you not, that, in this state, the only companies that  
4 this utilities commission regulates are investor-owned  
5 utilities?

6 A. Yes.

7 Q. So we sort of -- they're the ones -- the  
8 investors are the ones who provide the capital for the  
9 companies to engage in business in this state, right?

10 A. Yes.

11 Q. And they provide the capital to make -- they  
12 provide the money to make capital improvements, right?

13 A. Correct.

14 Q. How can -- how can a company operate to  
15 provide service to its customers without stockholders  
16 or without the management of the company being  
17 advertent to the needs of those stockholders?

18 A. They cannot, but --

19 Q. You have to look at me and answer the  
20 question.

21 A. I'm sorry. I thought he was about to say  
22 something. Could you repeat your question again?

23 Q. Yes, ma'am.

24 How can the investor of utilities that

1 operate in this state provide service to their  
2 customers without being advertent to the investors that  
3 make the capital available for them to provide the  
4 service?

5 A. I'm not sure I understand the question or --  
6 basically, we are of the belief that not 100 percent of  
7 the CEOs, presidents, legal counsel's time is spent on  
8 ratemakers' -- or ratepayers' issues. So absent any  
9 other discovery that we have, we believe that, okay,  
10 half your time is spent making ratepayers happy, and  
11 the other half is spent making your shareholders happy,  
12 be it one or 100,000.

13 Q. I understand that, for example, if the parent  
14 company is in the United States and it has -- it's  
15 publicly traded, that they have to provide with the  
16 Securities Exchange Commission rules and requirements,  
17 right?

18 A. Yes.

19 Q. You understand that Utilities, Inc., if it's  
20 owned by just one company, doesn't have to comply with  
21 all those rules and regulations?

22 A. That is my understanding.

23 Q. You understand that Utilities, Inc. and Aqua,  
24 for example, are called upon by the Commission and the

1 Public Staff to over -- to acquire trouble systems for  
2 example, right?

3 A. Yes.

4 Q. And serve as emergency operators and that  
5 type of thing?

6 A. Yes. As is the case with Riverbend, yeah.

7 Q. So in order to do that, they've got to have  
8 investments to enable them to continue to do those  
9 types of things that we call upon them to do, right?

10 A. Correct.

11 Q. You understand that operators report to  
12 managers, and managers report to executives, and  
13 executives report to directors, and directors report to  
14 stockholders, right?

15 A. Yes.

16 Q. And so at the top of the chain there, you  
17 have got the stockholder, and the stockholder is the  
18 ultimate one that makes the decisions, right?

19 A. Correct.

20 Q. And so this business of splitting up  
21 responsibilities, ratepayers on one side and  
22 stockholders on the other, that's not a direct line  
23 that you can draw; it's sort of a fuzzy line at best;  
24 is it not?



1 A. I would say that's an accurate depiction.

2 Q. All right. And the dividing line here that  
3 you've given us is 50 percent work for the stockholders  
4 and 50 percent work for the ratepayers.

5 Why is it 50/50 versus 60/40 or 30/70,  
6 something like that; how did you get to 50/50?

7 A. Based on the methodologies employed in other  
8 rate cases that has been brought before the Commission.

9 Q. With respect to Carolina Water Service, has  
10 the Public Staff recommended in the past that the  
11 executive salaries and the compensation be disapproved?

12 A. No. This is the first time.

13 Q. Mr. Henry was saying that, because you've  
14 done stuff with insurance in the past, that it was  
15 appropriate to do it in this case, but with respect to  
16 executive compensation, this is a new request on your  
17 part?

18 A. This is a new request on the part of the  
19 Public Staff, not just mine.

20 Q. I understand that. Let's see. All right.  
21 Let's see. Would you please, Ms. Johnson, filed a late  
22 filed exhibit -- file, as a late-filed exhibit, the  
23 calculation of your adjustment to allocate 50 percent  
24 of executive compensation, including pensions and

1 incentive plans of the top three executive officers of  
2 Utilities, Inc. to shareholders?

3 A. Okay.

4 Q. And I can repeat that if you want me to.  
5 This exhibit should include each officers' name, title,  
6 and related compensation to which the 50 percent  
7 adjustment was applied.

8 A. Okay.

9 Q. Let's see. On page 8 of 23 of witness  
10 DeStefano's rebuttal testimony, beginning on line 10,  
11 he discusses that the corporate level above Utilities,  
12 Inc. is Corix, which provides beneficial services and  
13 support for Utilities, Inc. and its affiliates,  
14 including Carolina Water Service in North Carolina.  
15 However, to date, those Corix corporate costs, such as  
16 directors' fees, tax, and corporate legal costs have  
17 not been included for recovery in this case.

18 Have you reviewed that?

19 A. I agree with that.

20 Q. You agree with that.

21 I think that's all I have for you.

22 CHAIRMAN FINLEY: Other questions by the  
23 Commission? Commissioner Patterson?

24 EXAMINATION BY COMMISSIONER PATTERSON:

1 Q. You use the Duke rate case and the 50 percent  
2 recommendation made by Public Staff in that one as a  
3 basis for this recommendation on Carolina Water?

4 A. (Sonja Johnson) Yes.

5 Q. Was there -- but this was -- are you -- are  
6 you saying that Duke and Carolina Water are sort of  
7 mirror images of each other?

8 A. I am not saying that at all. What I am  
9 saying is that the methodology that I utilized in this  
10 case is consistent with Duke and DEP; Aqua, which  
11 hasn't been decided on; and Piedmont Natural Gas. So  
12 it's not just water, it's not just gas, it's not just  
13 electric. It's what our policy is at this time.

14 Q. Is it all 50 percent?

15 A. I'm sorry?

16 Q. Does it all come down to 50 percent?

17 A. It does.

18 Q. Thank you.

19 CHAIRMAN FINLEY: Other questions?

20 EXAMINATION BY COMMISSIONER BROWN-BLAND:

21 Q. Ms. Johnson, one more for you. So you don't  
22 agree that it's fair -- Public Staff doesn't agree that  
23 it's fair for the ratepayers to pay the full amount of  
24 the executive compensation, because the executives work

1 for the shareholders and ratepayers; is that the basis?

2 A. (Sonja Johnson) That is the basis.

3 Q. And if that's not fair, in Mr. DeStefano's  
4 rebuttal, he also mentioned that the parent company,  
5 Corix, contributed items that were beneficial to  
6 ratepayers, yet did not seek to recover that. You  
7 agree that that's his testimony.

8 So do those two somehow -- is it not fair to  
9 cancel those out or to give some -- to recognize that  
10 that cost is not sought to be recovered?

11 A. I would say that the shareholder gets a  
12 return on their investment. That's how they are repaid  
13 for their investment. So when the Company does well,  
14 they get a bigger return.

15 Q. And so you're saying that the parent company  
16 is just helping out Utilities, Inc. is how you see it?

17 A. Yes.

18 Q. Okay. And -- okay. All right. Thank you.

19 CHAIRMAN FINLEY: Anyone else?

20 Questions on the Commission's questions?

21 MS. HOLT: I'd just like to follow up on  
22 Commissioner Brown-Bland's question to you.

23 REDIRECT EXAMINATION BY MS. HOLT:

24 Q. Would you say it's a fair characterization to

1 look at it in terms of the shareholders are compensated  
2 through returns?

3 A. (Sonja Johnson) Yes.

4 Q. And that the capital provided by the parent  
5 company is not exactly gratuitous?

6 A. Right. It's not like a handout. They get  
7 something in return.

8 Q. Thank you.

9 CHAIRMAN FINLEY: Other questions?

10 MS. SANFORD: Very few on the same  
11 topic.

12 RECROSS EXAMINATION BY MS. SANFORD:

13 Q. Ms. Johnson, did -- you may have said this.

14 Did Duke file for 100 percent of recovery of  
15 those executive compensations?

16 A. (Sonja Johnson) No. They filed 50 percent.

17 Q. They filed at 50. I was trying to get  
18 straight. And you may have said that, and I'm sorry I  
19 missed it. So, in that case, the Company filed that  
20 way.

21 Was that Duke's practice of doing that  
22 previously, or do you know?

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

24 Q. So did the Public Staff -- if this is your

1 position across the board, and it sounds like it is,  
2 I'm not trying to put words in your mouth, did this  
3 position start with the Duke case -- cases?

4 A. No. I think the earliest was the natural gas  
5 case.

6 Q. Natural gas case?

7 A. Yes.

8 Q. But I think you testified, but you haven't  
9 done that with respect to water companies prior to  
10 Aqua; is that correct?

11 A. I don't believe so.

12 Q. Don't believe so.

13 And so with your 50 percent policy, has any  
14 consideration been given to size of the company?

15 A. I believe so. I believe one of your  
16 witnesses testified that CWS is the second largest  
17 water company in North Carolina. So that was a  
18 consideration.

19 Q. So at some level of size, smaller size, we  
20 would not expect to see a 50 percent reduction for  
21 them?

22 A. Right. And I think that's reflected in the  
23 fact that I only took three as opposed to five in the  
24 other cases.

1 Q. All right. Does the Public Staff agree that  
2 there is alignment between ratepayer and shareholder  
3 interest with respect to financial viability of the  
4 Company?

5 A. Yeah, I would say so.

6 Q. Yet you would allocate the costs of this  
7 compensation or the responsibility for the compensation  
8 just 50/50, that you are either working for ratepayers  
9 or you're working for shareholders; is that right?

10 A. I don't think that the executives run around  
11 with clocks saying, okay, now it's ratepayers' turn,  
12 now it's shareholders' turn. So, to make it fair, I  
13 guess, we would say about 50 percent of your time is  
14 spent making your ratepayers happy and 50 percent of  
15 your time is spent making your shareholder happy.

16 Q. And do I correctly assume that you've read  
17 Mr. DeStefano's rebuttal in which he talks more  
18 specifically about the work that these three UI  
19 executives do?

20 A. I read it.

21 Q. And he describes, I think, after some  
22 investigation, some specific attention that these  
23 executives pay to articulated ratepayer matters and  
24 activities that perhaps are not reflected in the

1 activities of executives of larger companies?

2 A. I read it.

3 Q. You read that?

4 A. Yes.

5 Q. Do you agree?

6 A. Not 100 percent; no, I do not.

7 Q. Could you put a percent on it?

8 A. 50 percent.

9 Q. 50.

10 MS. SANFORD: I have no more questions.  
11 One too many.

12 CHAIRMAN FINLEY: All right. We will  
13 accept the exhibits of the three panelists here.  
14 (Feasel Exhibit Number 1, adopted by  
15 Windley Henry; Henry Supplemental  
16 Exhibit Number 1; Johnson Exhibit Number  
17 1; Johnson Supplemental Exhibit Number  
18 1; Boswell Supplemental Exhibit Number  
19 1; and Public Staff Panel Redirect  
20 Exhibit Number 1 were admitted into  
21 evidence.

22 CHAIRMAN FINLEY: You may be excused.  
23 We will take a 15-minute break here, but let's see  
24 how we stand here. We've got rebuttal witnesses by



1 the Company left. How much time is this going to  
2 take us today?

3 MS. SANFORD: We just have two. I think  
4 Mr. Mendenhall -- I won't presume to speak for the  
5 Public Staff, but I think Mr. Mendenhall's is  
6 pretty brief, leaving us principally with  
7 Mr. DeStefano, and I can't remember what you  
8 estimated for him for rebuttal.

9 MS. HOLT: Thirty minutes.

10 MS. SANFORD: So I think we're good.

11 CHAIRMAN FINLEY: Take a 15-minute  
12 break, and come back at 4:15.

13 (At this time, a recess was taken from  
14 4:01 p.m. to 4:15 p.m.)

15 CHAIRMAN FINLEY: All right. Let's go  
16 back on the record.

17 BRYCE MENDENHALL,

18 having first been duly sworn, was examined

19 and testified as follows:

20 DIRECT EXAMINATION BY MS. SANFORD:

21 Q. Would you please pull that microphone up  
22 close and state your name, and address, and position  
23 with the Company, please?

24 A. Bryce Mendenhall, vice president of

1 operations, Carolina Water Service. Address is 4944  
2 Parkway Plaza Boulevard, Charlotte, North Carolina.

3 Q. Thank you. Did you cause to be filed on  
4 October 12th, five pages of rebuttal testimony and two  
5 exhibits?

6 A. Yes, ma'am.

7 Q. Do you have any changes or corrections to  
8 make to your testimony or exhibits?

9 A. No, ma'am.

10 Q. Would your answers be the same asked those  
11 same questions today?

12 A. Yes, ma'am.

13 MS. SANFORD: Chairman Finley, I request  
14 that Mr. Mendenhall's testimony be copied into the  
15 record as if given orally from the stand, and his  
16 exhibits be marked.

17 CHAIRMAN FINLEY: Mr. Mendenhall's  
18 direct prefiled testimony of five pages of  
19 October 12, 2018, is copied into the record as if  
20 given orally from the stand, and his two exhibits  
21 are marked for identification premarked in the  
22 filing.

23 MS. SANFORD: Thank you.

24 (Confidential Mendenhall Rebuttal

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Exhibit Numbers 1 and 2 were marked for  
identification.)

(Whereupon, the prefilled rebuttal  
testimony of J. Bryce Mendenhall was  
copied into the record as if given  
orally from the stand.)

**FILED**

OCT 15 REC'D

Clerk's Office

**BEFORE THE NORTH CAROLINA UTILITIES COMMISSION**

**DOCKET NO. W-354, SUB 360**

In the Matter of  
Application by Carolina Water Service, Inc. of North Carolina  
for Authority to Adjust and Increase Rates for  
Water and Sewer Utility Service in All of Its Service Areas in  
North Carolina, Except Corolla Light and Monteray Shores Service  
Area

Pre-Filed Rebuttal Testimony  
of  
J. Bryce Mendenhall

On Behalf Of  
CAROLINA WATER SERVICE, INC. OF NORTH CAROLINA

October 12, 2018

1 **Q. Please state your name, occupation and business address for**  
2 **the record.**

3 A. My name is J. Bryce Mendenhall, and I am employed as the Vice  
4 President of Operations for Carolina Water Service, Inc. of North Carolina  
5 ("CWSNC" or "Company"), 4944 Parkway Plaza Boulevard, Suite 375,  
6 Charlotte, North Carolina 28217.

7 **Q. Please summarize your professional background.**

8 A. I have been employed with Carolina Water Service, Inc. of North  
9 Carolina ("CWSNC" or "Company") since March of 2017. I graduated from  
10 Appalachian State University in 1993 with a degree in Geographic  
11 Information Systems and Cartography. I have held various positions in the  
12 water/wastewater field for the past 25 years. Just prior to my employment  
13 with CWSNC, I worked for more than a decade as the Public Utilities  
14 Director for Franklin County, North Carolina.

15 **Q. Please explain your job responsibilities at CWSNC.**

16 A. I am responsible for making sure our customers in North Carolina  
17 and Tennessee receive the best possible service. Accordingly, I am  
18 responsible for operating personnel, facilities, maintenance, and capital  
19 projects, as well as being responsible for communicating with state and  
20 federal regulators regarding operational and capital issues.

21 I have been serving CWSNC and its customers as its Vice-President  
22 of Operations for over one year. During that time, I have invested  
23 considerable time in advancing CWSNC's commitment to operational

1 excellence, including (a) reviewing and adjusting our operational workforce;  
2 (b) improving CWSNC's commitment to environmental stewardship and  
3 sustainability; and (c) collaborating with Deborah Clark, CWSNC's  
4 Communications Coordinator, in resolving customer concerns.

5 **Q. Please describe CWSNC's operations in North Carolina.**

6 A. The Company is the second-largest water and sewer utility regulated  
7 by the North Carolina Utilities Commission ("NCUC" or "Commission").  
8 CWSNC presently serves approximately 34,871 water customers and  
9 21,531 sewer customers in North Carolina and operates approximately  
10 93 water systems and 38 sewer systems in the State. The Company's  
11 service territory spans 38 counties in North Carolina, from Bear Paw in  
12 Cherokee County to Corolla in Currituck County. Consequently, CWSNC,  
13 as a regulated public utility, has a continuing responsibility to upgrade the  
14 Company's widely-dispersed utility infrastructure and make necessary  
15 improvements to ensure its ability to continue to consistently provide  
16 adequate, efficient, and reasonable service to its customers as required by  
17 G.S. 62-131(b).

18 **Q: What is the purpose of your rebuttal testimony?**

19 A: The purpose of my rebuttal testimony is to describe the impacts from  
20 Hurricane Florence on the water and sewer systems of the  
21 Company. Company witness Dante DeStefano will address the financial  
22 implications of the impacts of Hurricane Florence on the Company.

1 **Q: Please describe briefly the impacts from Hurricane Florence on**  
2 **the water and sewer systems of the Company.**

3 A: The Company invested substantial time and resources preparing for  
4 the potential impacts of Hurricane Florence. On Friday, September 14,  
5 2018, Hurricane Florence made landfall at or around Wrightsville Beach near  
6 Wilmington, North Carolina. The unprecedented impacts upon North  
7 Carolina from the wind and rain generated by Hurricane Florence have been  
8 widely reported. Specifically, Hurricane Florence impacted most of the  
9 Company's coastal systems, including : (1) Fairfield Harbour; (2) Carolina  
10 Pines; (3) Hestron Park; (4) Brandywine Bay; (5) White Oak Estates;  
11 (6) Regalwood; (7) Belvedere Plantation; (8) Olde Pointe; (9) Mason's  
12 Landing; and (10) Treasure Cove (collectively referred to as "Coastal  
13 Systems"). Also, the storm impacted the Carolina Trace wastewater  
14 treatment plant ("WWTP") due to extreme flooding. In summary, CWSNC's  
15 preliminary estimates of the cost to restore the Coastal Systems and the  
16 Carolina Trace WWTP are \$1,116,000 and \$1,379,500, respectively, for a  
17 total of \$2,495,500. Attached to my rebuttal testimony are two confidential  
18 exhibits—a *Coastal Systems Damage Assessment Report* and a *Carolina*  
19 *Trace Damage Assessment Report*—providing more substantial  
20 information on the impacts of Hurricane Florence upon the Company's  
21 water and sewer systems. These exhibits are filed confidentially due to  
22 concerns about detailing plant vulnerabilities in a public document.

1 Additionally, to date, the Company has incurred \$110,834 in expenses and  
2 \$157,758 in capital investments (a total of \$268,592) in connection with its  
3 response to Hurricane Florence. The costs are anticipated to continue to  
4 accumulate as additional restoration work is performed on the Company's  
5 water and sewer systems to resume adequate and proper service to  
6 customers and as customers who were disconnected are brought back to  
7 active service.

8 **Q: How did the Company's water and sewer systems function**  
9 **during Hurricane Florence?**

10 A: First, no operational staff were injured preparing for and responding  
11 to the impacts from Hurricane Florence. Second, the Company was  
12 successful in providing continuous water service to 50% of the communities  
13 despite the challenges and impacts of Hurricane Florence. Third, the  
14 Company believes that the Fairfield Harbour community received the most  
15 significant impact from Hurricane Florence. The Company proactively  
16 issued a "voice reach" message to Fairfield Harbour customers offering to  
17 turn off their water service (without penalty) in the event a customer's home  
18 required substantial restoration activity (e.g., electrical repair, drywall repair,  
19 and/or carpet and flooring repair). All of CWSNC's water and sewer  
20 systems were returned to functional status by September 21, 2018, less  
21 than a week removed from the beginning of the impacts from  
22 Hurricane Florence. Investigation and assessment activities continue.



- 1 Q: Does this complete your rebuttal testimony?
- 2 A: Yes.

1 BY MS. SANFORD:

2 Q. Do you have a summary?

3 A. Yes, ma'am.

4 Q. Please proceed.

5 A. I'm Bryce Mendenhall, and I've been employed  
6 since March 2017 as the vice president of operations  
7 for Carolina Water Service, Incorporated of  
8 North Carolina. Graduated from Appalachian State  
9 University in 1993 with a degree in geographic  
10 information systems and cartography. And over the past  
11 25 years, I've held various positions in the water and  
12 wastewater field. Prior to my employment with CWSNC, I  
13 worked for more than a decade as the public utilities  
14 director for Franklin County, North Carolina.

15 My current responsibility is to be sure our  
16 customers in North Carolina receive the best possible  
17 service. Accordingly, I'm responsible for operating  
18 personnel, facilities maintenance, and capital  
19 projects, as well as for communicating with state and  
20 federal regulators regarding operational and capital  
21 issues. CWSNC is the second-largest regulated water  
22 and wastewater provider in the state serving  
23 approximately 38,871 water customers and 21,531 sewer  
24 customers in North Carolina. We operate approximately

1 109 water systems and 38 water systems with a 38-county  
2 service territory ranging from Cherokee County to  
3 Currituck County.

4           During my time with the Company, I've  
5 invested considerable time in advancing CWSNC's  
6 commitment to operational excellence, including  
7 reviewing and adjusting the operational workforce,  
8 improving CWSNC's commitment to environmental  
9 stewardship and sustainability, and collaborating with  
10 Deb Clark, CWSNC's communications coordinator, in  
11 resolving customer concerns.

12           The specific purpose of my rebuttal testimony  
13 is to describe the impacts from Hurricane Florence on  
14 the water and sewer systems of the Company. The  
15 company witness Dante DeStefano will address the  
16 financial implications. This unprecedented storm  
17 damaged most of the Company's 10 coastal systems.  
18 Also, the storm undermined the Carolina Trace  
19 Wastewater Treatment Plant due to extreme flooding.  
20 Our preliminary estimates of the cost to restore the  
21 coastal systems and the Carolina Trace Plant are  
22 \$1.1 million and \$1.4 million respectively for a total  
23 of \$2.495 million.

24           Q.     Thank you, Mr. Mendenhall.

1 MS. SANFORD: And, Chairman Finley,  
2 before I turn him over for cross, we thought he  
3 might be the witness who could answer  
4 Commissioner Clodfelter's questions, but we are  
5 going to need to do a late-filed exhibit as we  
6 research those post-test year additions that you  
7 were talking about. So with that, Mr. Mendenhall  
8 is available for cross.

9 CHAIRMAN FINLEY: Cross-examination?

10 MS. HOLT: No cross.

11 MS. FORCE: No cross.

12 CHAIRMAN FINLEY: Questions by the  
13 Commission? Mr. Clodfelter?

14 EXAMINATION BY COMMISSIONER CLODFELTER:

15 Q. Mr. Mendenhall, I will wait on the late-filed  
16 exhibit, but the Company is requesting a deferral on  
17 the Florence costs incurred, but I don't recall seeing  
18 in your testimony -- perhaps it's somewhere else or  
19 some other witness and you can refer me -- is what's  
20 the proposed period of deferral, and over what period  
21 do you want to amortize, and when do you want the  
22 amortization to start? Does the Company have a  
23 position on that at this point?

24 A. And those questions, I will refer you to

1 Mr. DeStefano -- Dante.

2 Q. I do have one customer-related question.

3 A. Yes, sir.

4 Q. It relates to the Asheville public hearing,  
5 and I don't know whether you were there or not.

6 A. I was not. I was on the coast during that  
7 time.

8 Q. We had a customer there. I can see her but I  
9 can't recall her name.

10 A. Connie Brown.

11 Q. Connie Brown who was having a problem with a  
12 constant -- the Buncombe MSD was having to come out and  
13 pump out the system there at the end of the street  
14 where she was on, and she wasn't sure why that was  
15 happening all the time.

16 Have you all been able to figure out what's  
17 going on there?

18 A. If I'm remembering the system you're talking  
19 about, we actually have got pricing and estimates now  
20 on a line replacement for that collection system line.  
21 We were having some issues, I think, with roots and  
22 some settling both in bellies in that line, so that was  
23 a preventative maintenance to try and avoid some  
24 property damage. But we did have an engineer -- excuse

1 me, a contractor go out and look at that line, if it's  
2 the one that I believe you're speaking of.

3 Q. So you're planning on replacing the line?

4 A. That is correct, yes, sir.

5 Q. Great. Thanks.

6 EXAMINATION BY CHAIRMAN FINLEY:

7 Q. Mr. Mendenhall, do you have a timeline as to  
8 when you think that project will be completed?

9 A. I think we were pushing by the end of the  
10 year, Mr. Finley.

11 Q. Ms. Brown understands that you're working on  
12 that, does she?

13 A. She -- I'm pretty confident that staff  
14 contacted her as well, or she at least saw staff and  
15 contractor on site. If not, we'll reach out to her  
16 just to confirm that we're looking at the project, yes,  
17 sir.

18 EXAMINATION BY COMMISSIONER BROWN-BLAND:

19 Q. And just a follow-up to that, as I missed her  
20 testimony as well.

21 Do you know if she's the only one affected by  
22 this issue? Your only customer affected?

23 A. We're going to be replacing the section of  
24 line that would include several services along, because

1 I think we're looking at maybe a 500- to 1,000-foot,  
2 section, so it would have affected more than just one  
3 residence.

4 CHAIRMAN FINLEY: All right. Questions  
5 on the Commission's questions of Mr. Mendenhall?

6 MS. SANFORD: None from us.

7 CHAIRMAN FINLEY: All right. .You may be  
8 excused.

9 THE WITNESS: Thank you.

10 CHAIRMAN FINLEY: We'll accept as  
11 exhibits, and we'll accept the Public Staff  
12 cross-examination exhibits of the panel.

13 (Confidential Mendenhall Rebuttal  
14 Exhibit Numbers 1 and 2 admitted into  
15 evidence.)

16 CHAIRMAN FINLEY: All right. He whose  
17 name cannot be pronounced, call him up.

18 MS. SANFORD: Well, it can be  
19 pronounced, but variously, apparently. So we'll  
20 call Mr. DeStefano. And he nodded, so that must be  
21 correct.

22 THE WITNESS: Accent on the stef. I  
23 don't mind. I know you're talking about me.  
24 That's fine.

1 CHAIRMAN FINLEY: You've already been  
2 sworn. Go ahead.

3 DANTE DESTEFANO,  
4 having previously been duly sworn, was examined  
5 and testified as follows:

6 DIRECT EXAMINATION BY MS. SANFORD:

7 Q. Would you please state your name, business  
8 address, and position with the Company?

9 A. Yes. My name is Dante DeStefano. My  
10 position is financial planning and analysis manager.  
11 My business address is 4944 Parkway Plaza Boulevard,  
12 Charlotte, North Carolina.

13 Q. Did you cause to be filed on October 12th,  
14 rebuttal testimony consisting of however many pages you  
15 see in your testimony up there?

16 CHAIRMAN FINLEY: 27.

17 MS. SANFORD: Thank you.

18 THE WITNESS: My rebuttal, I think, was  
19 22, 23 pages, yes.

20 MS. SANFORD: Yes.

21 CHAIRMAN FINLEY: How many?

22 THE WITNESS: Twenty-two pages,  
23 twenty-three excuse me.

24 BY MS. SANFORD:



1 Q. Twenty-three?

2 A. Yes. That's correct.

3 Q. Do you have any changes or corrections to  
4 make to your testimony?

5 A. The only change was the same -- mimicking the  
6 change from the direct testimony of Richard Linneman on  
7 page 15, starting on line 11 -- lines 11 through 13.  
8 And this is, again, referring to the segregation of  
9 plant-related and non-plant-related unprotected EDIT.  
10 Again, that sentence, line 11 through 13 referring to  
11 the 20-year proposed flowback can be omitted as we  
12 don't have any plant-related unprotected balances.

13 Q. Thank you. If I asked you the same questions  
14 today, would your answers be the same as in your  
15 prefiled testimony?

16 A. Yes.

17 MS. SANFORD: Chairman Finley, I request  
18 that Mr. DeStefano's testimony be copied into the  
19 record as if given orally from the stand.

20 CHAIRMAN FINLEY: All right. His  
21 rebuttal testimony of October 12th of 23 pages  
22 copied into the record as if given orally from the  
23 stand.

24 MS. SANFORD: Thank you.

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(Whereupon, the prefiled rebuttal testimony of Dante DeStefano was copied into the record as if given orally from the stand.)

**FILED**

0163

OCT 15 REC'D

Clerk's Office

**BEFORE THE NORTH CAROLINA UTILITIES COMMISSION**

**DOCKET NO. W-354, SUB 360**

In the Matter of  
Application by Carolina Water Service, Inc. of North Carolina  
for Authority to Adjust and Increase Rates for  
Water and Sewer Utility Service in All of Its Service Areas in  
North Carolina, Except Corolla Light and Monteray Shores Service  
Area

Pre-Filed Rebuttal Testimony  
of  
Dante DeStefano

On Behalf Of  
CAROLINA WATER SERVICE, INC. OF NORTH CAROLINA

October 12, 2018

1 **Q. Please state your name, occupation and business address for**  
2 **the record.**

3 A. My name is Dante DeStefano and I am employed as the Financial  
4 Planning and Analysis Manager for Carolina Water Service, Inc. of North  
5 Carolina ("CWSNC" or "Company"), 4944 Parkway Plaza Boulevard,  
6 Suite 375, Charlotte, North Carolina 28217.

7 **Q. Please summarize your professional background.**

8 A. I have been employed by CWSNC since October 2018. I graduated  
9 from Rutgers University with a Major in Accounting and am a Certified  
10 Public Accountant in the state of New Jersey. Prior to joining CWSNC, I was  
11 employed by American Water Works for 10 years - first as a Senior  
12 Accountant in the Accounting Department for two years, then in the Rates  
13 and Regulatory Department for eight years. During my last eight years with  
14 American Water, my duties consisted of preparing and assisting in  
15 regulatory filings and related activities for the Eastern Division. My  
16 responsibilities included preparing work papers and exhibits, providing  
17 testimony in support of rate applications and other regulatory filings, and  
18 addressing rate and tariff related matters.

19 **Q. Please explain your job responsibilities at CWSNC.**

20 A. My primary responsibilities include forecasting, budgeting, and  
21 financial analysis for the Company. I am also responsible for the oversight

1 of gathering data and preparation of rate cases, filing applications for rate  
2 cases, and providing data request responses for support of rate case filings.

3 **Q. What is the purpose of your rebuttal testimony?**

4 A. The purpose of my rebuttal testimony is to identify points of  
5 agreement between the positions of Public Staff and the Company, as well  
6 as explain where and why the Company disagrees with recommendations  
7 of Public Staff. Also, I will be addressing the impact to the Company of  
8 Hurricane Florence in September 2018. Finally, I adopt the prior Direct  
9 testimony of Richard Linneman in this case, and—for purposes of clarity—  
10 repeat some of his comments.

11 **Q. Have you reviewed the filed direct and supplemental testimony  
12 of Public Staff witnesses Casselberry, Hinton, Johnson, and Feasel?**

13 A. Yes.

14 **Q. Does the Company agree with any of Public Staff's adjustments  
15 to the Company's requested revenue requirement?**

16 A. Yes. The Company believes it is in agreement with the Public Staff  
17 on a number of adjustments to the filing, and anticipates filing a Joint  
18 Proposed Stipulation prior to the evidentiary hearing.

1 **Q. Is there a potential for further agreement on issues between the**  
2 **Public Staff and the Company?**

3 A. Yes. The Company has committed to provide additional updates and  
4 actual costs incurred since the filing of Public Staff's testimony and, based  
5 upon the Public Staff's review of this information, further agreement on  
6 issues that are currently unresolved may be possible.

7 **Q. Does the Company disagree with any positions put forth by the**  
8 **Public Staff in their direct or supplemental testimony?**

9 A. Yes. I will detail the Company's rebuttal regarding the following items  
10 in this proceeding:

- 11 1) Executive Compensation Expense
- 12 2) Insurance Expense
- 13 3) Contributions in Aid of Construction ("CIAC") and Premium  
14 Amortization Adjustment ("PAA") Amortization
- 15 4) Cash Working Capital
- 16 5) Federal Tax Cuts and Jobs Act ("Tax Act")
- 17 6) Consumption Adjustment Mechanism ("CAM")

1 I will also summarize the impacts to the Company of Hurricane  
2 Florence and the Company's proposal to address the unplanned costs (i.e.,  
3 expenses and capital investments) associated with our recovery efforts.

4 **Q. Please explain the adjustment to executive compensation**  
5 **expense presented by Public Staff witness Johnson in her direct**  
6 **testimony.**

7 A. Ms. Johnson removed 50% of allocated base salary of three Utilities,  
8 Inc. employees: the Chief Executive Officer; the Vice President & General  
9 Counsel; and the President of Shared Services.

10 **Q. Does the Company agree with this adjustment?**

11 A. No. The everyday functions of these positions are well-  
12 focused on customer satisfaction and efficient, low-cost operations. First,  
13 the Vice President & General Counsel provides legal support to the  
14 regulated companies such as CWSNC, including, for example, on issues  
15 involving human resources matters, health, safety and environmental  
16 issues, contract review, litigation support, and review of various legal issues  
17 that arise in regulatory and transactional matters, including rate filings,  
18 easement and right-of-way issues, and mandatory regulatory and legal  
19 policies such as record retention, privacy, and cybersecurity. These are the

1 basic legal functions of any regulated utility—which exist for the direct  
2 benefit of CWSNC's customers.

3 Second, the President of Shared Services' sole function is the  
4 delivery of services essential to local operations and its customers,  
5 including customer service, human resources, health safety and  
6 environmental compliance, IT, billing, insurance, accounting, and facilities  
7 management. The Company rejects the assertion that any of the President  
8 of Shared Services' role supports the shareholder in any other manner than  
9 simply facilitating a well-run utility.

10 Finally, the Chief Executive Officer works closely with local  
11 leadership in evaluating capital investment plans and operating budgets, as  
12 well as providing expertise on and leadership with addressing customer  
13 concerns, industry best practices, setting short and long-term operating  
14 strategies, and generating company initiatives and policies such as safety,  
15 environmental, and business transformation programs. The CEO assesses  
16 risks to make sure they are addressed and mitigated to ensure the  
17 Company provides safe, reliable, and cost-effective service. In addition, the  
18 CEO works closely with the single shareholder and lenders to secure capital  
19 and debt for improvements that directly address the needs of our  
20 customers. A regulated utility exists solely to provide service to its  
21 customers and it cannot exist without debt and equity funding. The



1 Company rejects the notion that any part of the CEO's role is for anything  
2 other than what is required to complete this mission.

3 In summary, the function of these three executives is not the  
4 equivalent of publicly-traded parent company corporate executives whose  
5 job focus may be much more on benefits to the shareholder. Utilities, Inc.  
6 is more of an operating company, as demonstrated by the roles of the three  
7 individuals at issue. Notably, Utilities, Inc. is not a publicly-traded company,  
8 so time spent on shareholder related activities is limited to that which is  
9 required to make sure risks are mitigated and capital is secured. Finally,  
10 Utilities, Inc. has only one shareholder and dealing with that single investor  
11 requires comparable effort as working with our debt holders.

12 Witness Johnson states that "the Company's executive officers are  
13 obligated to direct their efforts not only to minimizing the costs and  
14 maximizing the reliability of the Company's service to customers, but also  
15 to maximizing the Company's earnings and the value of its shares."  
16 Witness Johnson also states that the Company's officers have fiduciary  
17 duties of care and loyalty to shareholders but not to customers. That is not  
18 a fair representation of the implications and impacts of the relationship  
19 between the Company and its single shareholder. When the fundamental  
20 focus of the shareholder is ensuring customer satisfaction and welfare by  
21 providing the best service at the most reasonable possible price—which the

1 management of these regulated utilities are required by statute to do—then  
2 the interests of the shareholder and the Company's ratepayers are  
3 understood to be exactly aligned. This alignment becomes clearer when  
4 one considers the necessity, for the customers' benefit, for a utility to attract  
5 both high-quality human resources for management and leadership  
6 purposes, and to attract financial capital to support such a capital-intensive  
7 industry. Attracting capital from investors is vital to fund needed  
8 improvements in aging systems and, as other regulators have recognized,  
9 one of the great benefits to a local utility being part of a larger utility company  
10 is access to capital that the parent is able to provide.<sup>1</sup> The ability to maintain  
11 and support proper service to customers at a reasonable cost is inextricably  
12 linked to the officers' ability to meet shareholder expectations.

13 Without the executives' support and services, the Company would  
14 neither be positioned to meet the needs of its customers nor be eligible to  
15 achieve financial returns that attract debt and equity capital needed for the  
16 financial welfare of the utility. Therefore, executive base compensation is  
17 an integral and necessary part of the Company's overall cost of service to  
18 meet the needs of its customers, and any reduction to executive base  
19 compensation recovery is not warranted in this proceeding.

20 **Q: How has Public Staff Witness Johnson determined the**  
21 **appropriate sharing of executive base pay between customers and**

1 **shareholders?**

2 A: It is unclear. The Public Staff appears to make a blanket decision—  
3 without examination of or reference to the compensation philosophy or of  
4 the actual compensation goals and guidelines—that a 50:50 sharing of the  
5 base salary for rate recovery is appropriate. Respectfully, the Company  
6 submits that the Public Staff's recommendation is arbitrary and lacks  
7 support in both the facts and in the reality of the functions of this executive  
8 team, and that their contributions should be fully supported in rates as they  
9 provide direct benefits to customers.

10 **Q: Are there other corporate-level costs benefiting CWSNC and its**  
11 **customers that the Company has not included in its revenue**  
12 **requirement?**

13 A: Yes. A corporate level above Utilities, Inc. is Corix, which has  
14 provided beneficial services and support to Utilities, Inc. and its affiliates—  
15 including CWSNC—since its acquisition of UI. However, to date, those  
16 "Corix corporate costs" (such as director fees, tax and corporate legal costs,  
17 etc.) have not been included for recovery in CWSNC's rates even though  
18 they should be included as part of the overall costs to support the services  
19 provided to the Company.

20 **Q. Please explain the adjustment to Insurance Expense presented**  
21 **by Public Staff Witness Feasel.**

1 A. Witness Feasel allocated the insurance premiums paid by Utilities,  
2 Inc. based upon a variety of factors. Namely, (1) automobile insurance was  
3 allocated based on the number of CWSNC vehicles compared to total  
4 vehicles covered under the policy; (2) worker's compensation insurance  
5 was allocated based upon the proportion of CWSNC payroll to total covered  
6 payroll; and (3) property insurance was allocated based upon the proportion  
7 of CWSNC property to total covered property.

8 **Q. Does the Company agree with these allocation methodologies?**

9 A. No. The Company understands the desire to identify an allocation  
10 method more aligned with the subject of the policy. However, there are far  
11 too many factors—which were not considered by the Public Staff—involved  
12 in the setting of policy premiums to utilize only one for each policy in  
13 allocating insurance costs. For example, in addition to the number of  
14 vehicles covered, auto policies consider factors such as “rating territory”  
15 (urban vs. rural), vehicle type and storage (maintenance truck vs. pool car),  
16 vehicle age, original cost, and claims history. The mix of vehicles covered  
17 under Utilities, Inc.'s auto policy will vary for each subsidiary on each of  
18 these factors. Similarly, claims history and employee classification mix will  
19 influence worker's compensation premiums. Consequently, the Company's  
20 allocation method avoids “going down the rabbit hole” of attempting to  
21 identify a perfect allocation method, and utilizes a single, consistent

1 allocation method in each application. Therefore, the Company reiterates  
2 its as-filed allocation method for insurance expenses as the most  
3 reasonable and appropriate allocation method.

4 **Q. Please explain the proposed CIAC and PAA Amortization**  
5 **Expense as calculated by Public Staff witness Feasel.**

6 A. Witness Feasel calculated an annual amortization expense for each  
7 of CIAC and PAA based on the recommended level of each balance  
8 multiplied by the overall composite depreciation rate for the Company's  
9 direct plant in service.

10 **Q. Does the Company agree with this calculation?**

11 A. No. The Company believes CIAC and PAA amortization should use  
12 the actual amortization rates for each applicable account within the CIAC  
13 and PAA groups, and not the proxy of composite depreciation rate. The  
14 Public Staff's calculation presumes the mix of asset account values in plant  
15 in service and CIAC and PAA are exactly the same, which they are not.  
16 Applying the Company's rates to the actual balances at June 30, 2018,  
17 composite CIAC rates of 2.49%, 2.04%, 2.50%, and 2.06% were confirmed  
18 for Uniform Water, Uniform Sewer, Bradfield Farms/Fairfield Harbor Water,  
19 and Bradfield Farms/Fairfield Harbor Sewer, respectively. Likewise, for  
20 PAA, the actual water rate of 2.47% and sewer rate of 3.53% should be

1 utilized. As the Company's actual CIAC and PAA composite rates differ  
2 from composite depreciation rates due to a varying asset mix, the Company  
3 recommends the above rates as the more reasonable and supportable  
4 calculation.

5 **Q. Please explain the proposed Cash Working Capital calculation**  
6 **proposed by Public Staff witness Feasel.**

7 A. Witness Feasel calculated Cash Working Capital by identifying the  
8 Public Staff's proposed General and Maintenance Expenses, less  
9 Purchased Water and Sewer Treatment Expenses, and this result was  
10 multiplied by 1/8th.

11 **Q. Do you agree with this calculation?**

12 A. No. The Company accepts the commonly used method of applied a  
13 1/8<sup>th</sup> factor to operating and maintenance expenses. However, I submit that  
14 it is improper to remove purchased water and sewer expenses, as they are  
15 cash expenses (as opposed to non-cash expenses such as amortization  
16 and depreciation). As these expenses are invoiced and expensed with cash  
17 instrument payments, they are no different in nature from the remaining  
18 operating and maintenance expense items. Presumably, purchased water  
19 and sewer treatment expenses are excluded as there is currently a means  
20 to prospectively update recovery levels between base rate cases. However,

1 this is only true for a portion of such expenses incurred by the Company  
2 (i.e., only those systems that are supplied by 100% purchased water) and  
3 is only accomplished with a change in rate recovery *after* the increase in  
4 expense has been experienced. As such, the Company requests that  
5 purchased water and purchased sewer treatment expenses be included in  
6 the Cash Working Capital calculation in this proceeding.

7 **Q. Have the Company's operations been impacted by the recent**  
8 **Hurricane Florence?**

9 A. Yes. Please see the rebuttal testimony of J. Bryce Mendenhall for  
10 more details regarding the operational impacts of Hurricane Florence on the  
11 Company.

12 **Q. What unplanned operating and financial impacts has the**  
13 **Company incurred due to Hurricane Florence to-date?**

14 A. The Company has begun to identify and compile its operating  
15 expenses, capital investments, and lost revenue caused by Hurricane  
16 Florence. First, according to the Company's billing records, 45 water and  
17 sewer customers within Fairfield Harbor have been disconnected due to  
18 Hurricane Florence. In the twelve months prior to the hurricane, this group  
19 of customers averaged a combined water and sewer bill of \$57.54 per  
20 month. Please refer to Company Witness Mendenhall's testimony for

1 estimated of expense and capital needs in the wake of the hurricane. The  
2 costs are anticipated to continue to accumulate as additional restoration  
3 work is performed on the Company's water and sewer systems to resume  
4 adequate and proper service to customers and as customers who were  
5 disconnected are brought back to active service.

6 **Q. Does the Company request authorization for specific treatment**  
7 **of these costs in this proceeding?**

8 A. Yes. The Company requests that deferral accounting be authorized  
9 for unique operating and capital expenses incurred related to Hurricane  
10 Florence, pending determination of any applicable insurance recovery.  
11 Should insurance proceeds be insufficient to recover prudently-incurred  
12 costs, the Company requests amortization of such costs be addressed in  
13 its next base rate proceeding.

14 **Q. How does the Company propose to implement and address the**  
15 **reduction of the federal income tax rate for corporations?**

16 A. As addressed in the direct testimony of Richard Linneman, CWSNC  
17 has adjusted the federal corporate income tax rate to 21% in this rate case  
18 for revenue requirement calculations. Thus, the Company's proposed rates  
19 in this proceeding reflect and incorporate the current federal corporate  
20 income tax rate of 21%. Nevertheless, due to the fact that the Tax Act was



1 a singular event occurring outside of the Company's historic test period,  
2 CWSNC asserts that it should not be treated as a stand-alone event since  
3 many changes occur over the course of time. For that reason, CWSNC  
4 believes the Federal Tax Act should not automatically trigger a refund to  
5 customers of revenues collected from January 1, 2018, until a final order is  
6 received in this proceeding (the "Review Period").

7 Instead, CWSNC has asserted that the Commission should carefully  
8 and thoroughly consider all items within the Company's revenue  
9 requirement. Indeed, that is precisely what is occurring in the current  
10 proceeding. In fact, the Company has updated its original Test Year of  
11 December 31, 2017 with actual data as of June 30, 2018, which is  
12 approximately the midpoint between the Tax Act taking effect and the date  
13 the current rate case will likely become effective and reflects a fair  
14 representation of the Company's financial status in the Review Period. If  
15 the proper revenue requirement as determined by the Commission in this  
16 rate case meets or exceeds that of the Company's last rate case (excluding  
17 effects of the Tax Act beyond the change in the income tax rate to 21%,  
18 such as amortization of EDIT), it will therefore strengthen the claim that the  
19 Company did not exceed its authorized return. Consequently, the Company  
20 believes it is in a unique position relative to other North Carolina utilities, as  
21 the comprehensive financial review in this proceeding would directly

1 support the retention of the Review Period funds by the Company to sustain  
2 its just-vetted operating needs.

3 However, should a refund be required by order of the Commission in  
4 this rate case, the Company recommends that the credit be offset by the  
5 Company's existing deferred asset balances. This methodology will be  
6 explained in more detail later in my testimony

7 **Q. Did the Company present a proposal for return of EDIT funds to**  
8 **customers in the testimony of Richard Linneman?**

9 A. Yes. For EDIT protected under the Internal Revenue Service ("IRS")  
10 normalization rules, CWSNC proposed to apply the flow back in accordance  
11 with those rules. For EDIT not protected by normalization rules, but related  
12 to property, plant, and equipment ("PP&E"), the Company proposed a flow  
13 back over a 20-year period. Finally, for EDIT neither protected by  
14 normalization rules nor related to PP&E, the Company proposed flow back  
15 over a 5-year period.

16 **Q. Does the Company wish to update its proposal?**

17 A. Yes. The Company has provided supporting workpapers for the  
18 protected Federal EDIT balance and requests a 45-year amortization of this  
19 balance using the Reverse South Georgia method, inclusive of gross up, in  
20 accordance with IRS normalization rules.

1           The Company was authorized in its last rate case to amortize State  
2   EDIT due to a recent tax rate change. The Company proposes combining  
3   the remaining State EDIT with the Federal unprotected EDIT and offsetting  
4   the balance against the Company's various unamortized deferred  
5   maintenance assets in this proceeding. The particular deferred assets to  
6   be utilized in this calculation are shown in the testimony of Public Staff  
7   witness Feasel, Exhibit I, Schedule 2-10(a), and are comprised of tank  
8   painting, wastewater treatment plant painting, and wastewater pumping and  
9   hauling costs. The Company believes, and the Public Staff's testimony  
10   confirms, there are sufficient deferred assets to offset the combined EDIT  
11   credit balance, with a focus on those asset balances closest to conclusion  
12   of their amortization period in order to best align this proposal with the Public  
13   Staff proposal of a three-year amortization period.

14           This proposal would smooth customer impacts by netting balances  
15   due-to and due-from customers immediately, as opposed to initiating  
16   offsetting customer rates (recovery in base rates of deferred asset rate base  
17   and amortization, versus an EDIT credit "Rider") with different effective  
18   periods, which would result in uneven customer impact over the next  
19   several years and mask price signals otherwise considered in rate design  
20   (i.e., a "yo-yoing" of rates). It will also mitigate cash flow concerns for the  
21   Company, as the lower tax rate going forward will lead to slower growth in

1 the ADIT balance, which is a source of cash used for continued capital  
2 investment. Limiting interest payments required on refunds also will avoid  
3 negative cash flow impacts. It will also avoid for both the Company and  
4 Public Staff the additional effort of implementing a new rider, tracking the  
5 balances, and potentially manually calculating interest. A similar proposal  
6 was recently accepted by the Regulatory Commission of Alaska in Docket  
7 U-18-042, Order No. 2.

8         Should the above proposal of offsetting deferred assets against the  
9 unprotected EDIT not be adopted, the Company alternatively reiterates its  
10 position articulated in the direct testimony of Richard Linneman, with a 20-  
11 year amortization of unprotected plant EDIT and a 5-year amortization of  
12 unprotected non-plant EDIT.

13         As noted in my testimony above, should a sur-credit be implemented  
14 for revenues recorded in the Review Period, the Company also proposes to  
15 offset this credit balance with the unamortized deferred assets approved in  
16 this proceeding until the deferred assets are exhausted before  
17 implementing a sur-credit. Any amount determined to be refunded should  
18 be credited to customers over one year, and accrue interest at an  
19 appropriate short-term interest rate, especially if refunds commence at or  
20 before January 1, 2019. This is more reasonable than the cost of capital  
21 rate due to the funds being returned to customers approximately one year

1 or less since they were billed. The Company proposes that any calculation  
2 of Review Period revenues to be refunded should identify the percent  
3 revenue reduction due to the decrease in income tax expense for each tariff  
4 group. This percentage would then be multiplied by the actual applicable  
5 revenues booked for the Review Period to determine the level of refund.

6 **Q. Do you have additional comments regarding the impact of the**  
7 **Tax Act on contributed plant, beyond those presented by**  
8 **Mr. Linneman in his direct testimony?**

9 A. Yes. I would like to note that the Commission issued an order on  
10 October 5, 2018, in Docket W-100, Sub 57, which initiated a generic  
11 proceeding to review the impacts of the Tax Act on water and wastewater  
12 utilities in North Carolina. Comments are due on October 25, 2018. The  
13 Company plans on providing comments in the generic proceeding and will,  
14 in the interim, comply with the Commission's requirement that the full gross-  
15 up method be utilized, excepting circumstances where the present value  
16 method is authorized by the Commission.

17 **Q. Have you reviewed Public Staff Witness Casselberry's**  
18 **testimony opposing the Company's proposed Consumption**  
19 **Adjustment Mechanism ("CAM")?**

20 A. Yes.

1 Q. Do you agree with it, and if not, please explain.

2 A. No, I do not agree with the Public Staff's position on the CAM. In its  
3 Application, CWSNC requested authority to implement a "consumption  
4 band" water and wastewater rate adjustment mechanism within each of the  
5 Company's four Rate Divisions for non-purchased water and wastewater  
6 commodity customers. The CAM is a mechanism that balances the risk and  
7 impact on ratepayers and shareholders of levels of water and wastewater  
8 consumption that are either significantly higher or significantly lower than  
9 those levels of consumption that were used to set the Company's base  
10 rates.

11 CWSNC continues to assert the necessity and fairness of the CAM  
12 mechanism, both with respect to the Company and its customers; I again  
13 adopt by reference the comments of Mr. Linneman, made in his direct  
14 testimony. The Company submits that the overall trend of per-capita  
15 consumption continues to decline (see Table 1 below, highlighting  
16 Company average usage for a non-seasonal window), and there are  
17 numerous studies and reports from across the country over recent years  
18 that support this pervasive trend<sup>ii</sup>. NARUC, at its November 2013 meeting,  
19 recognized the continued trend in declining consumption, and expressly  
20 supported alternative rate mechanisms to address these concerns<sup>iii</sup>.

TABLE 1

Period	Average Gallons/ERC
Dec 15-Mar 16	4,226
Dec 16-Mar 17	3,839
Dec 17-Mar 18	2,709

1

2           Generally, an increased conservation ethic among customers, as  
3 well as the proliferation of efficient water fixtures (i.e., modern irrigation and  
4 household plumbing devices) that conform to increasingly strict  
5 manufacturing standards,<sup>iv</sup> contribute persistently to a gradual decline in  
6 consumption per customer. These factors are out of the control of the  
7 Company and will continue to drive consumption decline for the foreseeable  
8 future as older, less-efficient fixtures are replaced with more efficient units  
9 and new homes are built at current efficiency standards. The water and  
10 sewer industry also operates with a cost structure that is mostly fixed;  
11 however, the revenue is generated in large portion by the variable  
12 consumption component of rates. Additionally, the Company's revenue  
13 requirement is set based on an expected "normal" consumption level, which  
14 does not account for the considerable seasonal weather variations which  
15 can occur—it is highly unlikely that any particular year will result in exactly  
16 the level of consumption utilized in the setting of rates.

17           The proposed CAM helps to alleviate the negative impact to the  
18 Company of declining consumption and significant seasonal weather

1 variation and protects customers from over-collection in an increasing  
2 consumption scenario. In addition, such a mechanism eliminates the  
3 throughput incentive, which currently presents the Company with conflicting  
4 motivations. The Company is currently incentivized to sell more water to  
5 improve its financial performance, yet this would increase costs to  
6 customers and fails to promote conservation of a valuable resource. The  
7 CAM mechanism would remove this conflict and allow the Company to  
8 promote wise water use without concern for the impacts on its financial  
9 results. In short, the CAM better aligns the interests of customers and the  
10 Company.

11 As to the Public Staff's specific concerns: (1) CWSNC believes that  
12 the Commission has inherent authority to adopt the CAM in this ratemaking  
13 proceeding; and (2) the Company fully accepts and anticipates that a  
14 comprehensive rulemaking proceeding would ensue, should the  
15 Commission conclude in this case that it is in the public interest to approved  
16 implementation of a CAM. In such a proceeding, the best decisions could  
17 be made about applicable procedures whether they are the ones proposed  
18 by CWSNC herein or others to be determined.

19 Alternatively, the Company continues to respectfully request that the  
20 Commission find it reasonable, necessary, and appropriate to direct the  
21 parties to develop a rate design that is based on a 60:40% ratio of base  
22 facilities to volumetric charges for water. This would be a change from the



1 current ratio of approximately 50:50, base to volumetric. The proposed ratio  
2 is needed to more closely align cost recovery with actual costs incurred,  
3 especially absent a CAM. In the supplemental testimony of Public Staff  
4 Witness Casselberry, in response to a customer comment related to the  
5 level of base charges, Casselberry states: "[i]t is the Public Staff's opinion  
6 that higher base charges do not encourage conservation" (Pg. 6). This  
7 exemplifies the throughput incentive conflict: the Public Staff believes a  
8 lower base charge encourages conservation, which may be reasonable.  
9 However, absent a CAM to stabilize revenues, this adds revenue volatility  
10 to the utility due to a higher proportion of revenues being subject to the  
11 vagaries of seasonal weather patterns and any conservation measures  
12 adopted by customers. The Company is therefore not properly incentivized  
13 to promote conservation, and Public Staff's position on rate design  
14 highlights the need to implement the CAM

15         Additionally, and respectfully, I disagree with the Public Staff's  
16 position that CWSNC is disqualified from arguing this rate design position  
17 at this point. The Commission *Order Establishing General Rate Case,*  
18 *Suspending Rates, Scheduling Hearings, and Requiring Customer Notice,*  
19 dated May 22, 2018, specifically provided as follows:

20         The Commission may consider additional or alternative rate design  
21 proposals which were not included in the original application and may  
22 order increases or decreases in the utility rate schedules which differ  
23 from those proposed by the Applicant. However, any rate structure  
24 considered will not generate more overall revenues than requested

1 (See Appendices A-1, p. 5 of 9; A-2, p. 3 of 6, and A-3, p. 3 of 5)

2

3 Q. Is this testimony true and accurate to the best of your  
4 knowledge, information, and belief?

5 A. Yes.

6 Q. Does this conclude your testimony?

7 A. Yes.

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<sup>i</sup> New York Public Service Commission, Case 16-W-0284, Order Approving Sale of Assets, 4/21/2017, page 7.

<sup>ii</sup> <http://pacinst.org/wp-content/uploads/2015/04/Water-Use-Trends-Report.pdf>; Coomes, Paul et al., North America Residential Water Usage Trends Since 1992 – Project #4031, page 1 (Water Research Foundation, 2010)

<sup>iii</sup> <https://pubs.naruc.org/pub.cfm?id=53A0858A-2354-D714-5175-3BF53CDDC767>

<sup>iv</sup> Energy Policy and Conservation Acts of 1992 and 2005  
Energy Independence & Security Act of 2007

1 BY MS. SANFORD:

2 Q. Do you have a summary?

3 A. I do.

4 Q. Please proceed.

5 A. My rebuttal testimony responds to the direct  
6 testimony of Public Staff witnesses Johnson, Feasel,  
7 and Casselberry, explains where the Company disagrees  
8 with the recommendations of Public Staff and also  
9 states that the Company and Public Staff are working  
10 towards agreement of many of the proposed adjustments.  
11 I also adopt the prior direct testimony of Company  
12 witness Richard Linneman and explain a Company proposal  
13 for a specific accounting treatment of Hurricane  
14 Florence-related costs, including unplanned expenses,  
15 capital investments, and a loss of revenue.

16 Regarding Company disagreements with Public  
17 Staff's recommendations, I address the following  
18 issues: The Company contests witness Johnson's removal  
19 of 50 percent of base salary for three Utilities,  
20 Incorporated executive employees; witness Feasel's  
21 reallocation of insurance premium expenses passed to  
22 Carolina Water Service; witness Feasel's use of  
23 composite depreciation rate for calculating the CIAC  
24 and PAA amortization expense; the removal of purchased

1 water and purchased sewer treatment expense from cash  
2 working capital calculation; witness Casselberry's  
3 arguments regarding the implementation of the proposed  
4 CAM mechanism. Finally, the Company updates its  
5 proposal regarding the implications of the Federal Tax  
6 Cuts and Jobs Act.

7 MS. SANFORD: Thank you. The witness is  
8 available for cross.

9 CHAIRMAN FINLEY: Cross examination?

10 MS. FORCE: No questions.

11 CROSS EXAMINATION BY MS. HOLT:

12 Q. Good afternoon.

13 A. Hi, good afternoon.

14 Q. I'd like to start my few questions regarding  
15 executive compensation.

16 A. Sure.

17 Q. On page 5 of your testimony, Mr. DeStefano.  
18 I didn't get it.

19 A. That's okay.

20 Q. Rebuttal. I'm sorry, rebuttal. You state  
21 that the president of shared services.

22 Who -- could you identify who the president  
23 of shared services is, the name?

24 A. Yes. That's James Devine. So I think

1 Ms. Johnson, witness Johnson referred to him as  
2 president, or the position as president, but the full  
3 position title is president of shared services.

4 Q. Okay. But that is an executive position?

5 A. I believe it's classified that way  
6 internally. That's my understanding.

7 Q. Okay. And you've -- you've stated some of  
8 their job duties in your testimony between pages 4 and  
9 5 -- 4 and 6, I believe?

10 A. That's right.

11 Q. Is it your contention that the Public Staff's  
12 50 percent exclusion of their salaries -- is it your  
13 contention that 100 percent of the work done by these  
14 executives is for the ratepayer benefit?

15 A. So I think each position is probably a little  
16 bit different. The president of shared services is  
17 fully supporting, and his staff in the shared services  
18 group fully support the operating companies and the  
19 functions of the operating companies, be it, you know,  
20 accounting functions, HR, insurance, IT, et cetera.  
21 Those kind of administrative back office functions. So  
22 Mr. Devine is overseeing those functions as his primary  
23 and key duty.

24 And similarly, the other positions, the CEO

1 and the general counsel position, are supporting those  
2 various regulated subsidiaries in a similar way. I  
3 don't know if I would say 100 percent of their time is  
4 focused in that same vein, but to the extent that they  
5 are having any -- obviously, there has to be  
6 conversations between them and the folks above them in  
7 the larger organization to maintain, you know, good  
8 communication and make sure the operations are running  
9 as needed and any issues are addressed. So there's, I  
10 would assume, communication going on up in that  
11 direction as well.

12 Q. Would you agree that their functions within  
13 Utilities, Inc. does impact the earnings of the  
14 shareholder, the one shareholder that the Company has?

15 A. I'm sorry, can you repeat that question one  
16 more time, please?

17 Q. Their functions that you have enumerated, the  
18 work that they do does impact, in some respect, the  
19 earnings of the entire company and the shareholder, the  
20 one shareholder that you contend they have?

21 A. To the extent they're focused on shareholder  
22 needs, it's primarily to drive the facilitation of  
23 capital to continue the operations of the Company.  
24 Which it's a very capital-intensive industry, the water

1 and wastewater industry, especially now with the  
2 capital needs that most systems have. So maintaining  
3 good relationships with the shareholders and the  
4 executives, you know, in the larger organization is  
5 vital to maintain that -- and maintaining good  
6 operating practices helps maintain -- facilitate that  
7 capital coming to the business.

8 Q. Despite Utilities, Inc. being unique, if you  
9 will, compared to some of the other publicly traded  
10 companies, aren't the executives also expected to have  
11 responsibility to meet earnings projections,  
12 expectations?

13 A. I'd have to probably look at their individual  
14 job descriptions to see to what extent that's  
15 explicitly in their tasks and duties. I know, as was  
16 mentioned from a previous witness, that they do have  
17 incentive programs that are available to them. So at  
18 the very least, that is available for them. But I  
19 think what we were contending here was base salary pay  
20 as opposed to incentive-based pay.

21 Q. Okay. Do you know of any logs that the  
22 Company executives keep that might distinguish their --  
23 the work that they do solely on the behalf of  
24 ratepayers and in furtherance of their earnings

1 initiatives?

2 A. As was said before, I think it's maybe a  
3 bit -- to answer your question directly, I don't think  
4 there's a -- I don't think -- I'm not aware of any logs  
5 like that. Again, I've been with the Company a little  
6 while. I'm not sure how much detail is kept on things  
7 like that. But generally speaking, again, what -- any  
8 work that is done for shareholder -- to facilitate  
9 shareholder expectations or meet shareholder  
10 expectations generally benefits the customers, and to  
11 the extent it continues to supply capital to the  
12 business and keep the business running.

13 Q. Okay. But you don't know the exact  
14 percentage?

15 A. I don't know if there's any data that would  
16 support an exact percentage.

17 Q. Okay. Thank you. Move on to page 13 of your  
18 rebuttal testimony.

19 Based on our discussions of the Commission's  
20 recent order in the tax docket, is it still the  
21 Company's contention that a singular event occurring  
22 outside the Company's historic test period should not  
23 be treated as a standalone event?

24 A. So I think what I was trying to describe here



1 was that the Company's currently in a proceeding, a  
2 rate proceeding, and the Company's having --  
3 effectively the Company is having all of its components  
4 of its revenue requirement reviewed at this point in  
5 time. And concurrent with that is the tax proceeding.  
6 So that's why I think our position was that the -- that  
7 the Tax Act consideration is -- all of the different  
8 moving parts of the Tax Act consideration would be  
9 resolved in the case and dealt with from the rate case  
10 order.

11 Q. Okay. Thank you for that clarification. You  
12 make note of -- in your testimony in Alaska, a decision  
13 by the Alaska Public Service Commission. Do you know  
14 of any other -- let me back up. You make note of a  
15 decision by the Regulatory Commission of Alaska wherein  
16 that Commission declined to make a portion of the  
17 revenue received by two utilities refundable pursuant  
18 to the 2017 Tax Act.

19 Have you read that case?

20 A. I reviewed the order in that case, and we  
21 have an affiliate in that state who pointed me --  
22 directed me to that order.

23 Q. Okay. Isn't it true that the utilities that  
24 were granted, that favorable treatment is

1 distinguishable from Carolina Water's case in this  
2 instance in that they had not come in for a rate  
3 increase since 2014?

4 A. I believe you're correct that those -- that  
5 those companies had been out of rates since that point.  
6 However, I think this scenario is actually better for  
7 assessing the situation, because we have a current  
8 review going on of currently relevant revenue  
9 requirement information as opposed to stale revenue  
10 requirement information from an older rate case.

11 Q. Do you know of any other jurisdictions that  
12 took the approach similar to Alaska?

13 A. That was the only one I was able to find so  
14 far, but I don't think I've uncovered every stone. I  
15 think a lot of states are still working through this  
16 process.

17 Q. All right. And also, would you accept,  
18 subject to check, a lot of other states are ordering  
19 their utilities to refund the money?

20 A. I'm aware of several states doing that, yes.

21 Q. Thank you. On page 16, lines 1 to 7,  
22 basically, you suggest that the Commission offset EDIT  
23 unprotected balances against the Company's various  
24 unamortized deferred maintenance assets; is that

1 correct?

2 A. That's correct.

3 Q. Now, weren't these -- I think Public Staff  
4 witness Boswell made this clear that these deferred  
5 maintenance assets were already decided and approved in  
6 a prior rate case; is that correct?

7 A. I believe that's correct, that the balances  
8 and the amortization periods were set in a prior case.

9 Q. But your position here now is to change  
10 that -- change something that was ordered pursuant to  
11 another rate case?

12 A. Right. So generally the idea, when you have  
13 one-time costs that are -- that are too onerous to  
14 just -- you know, passthrough rates that may last  
15 longer than one year or for the Company to incur a  
16 substantial cost in one year, costs often get deferred  
17 and amortized over an extended period to smooth the  
18 impact out and spread the impact in rates and spread  
19 the recovery. So that being the ideal, in general, on  
20 deferred asset side, a similar approach was taken on  
21 the EDIT side where there's funds that are in a  
22 deferred liability account, and similarly, smoothing --  
23 the idea from our perspective and the Company's  
24 perspective was to smooth the impacts out and create,

1 basically, a net affect between these two balances,  
2 which would smooth the impact out to customers, as  
3 opposed to having what I call a yo-yo affect in rates  
4 where giving, you know, full credits in one -- in one  
5 go, give customers a lower bill temporarily, but then  
6 it springs back up after the fact.

7 Q. Right. But the amortization periods on those  
8 deferred assets to which you refer were already  
9 decided, correct?

10 A. Yes, I understand that. But I'm aware of  
11 multiple cases where deferred assets have been set for  
12 an amortization, then re-amortized later based on new  
13 information, either additional costs or, you know,  
14 payments that have come in from vendors, or insurance  
15 proceeds, or whatever else. So in this scenario, to  
16 the Company, seemed like kind of a unique offset  
17 situation that could be utilized to smooth the impact  
18 to customers for cost spread to future years.

19 Q. Do you know of our Commission doing that?

20 A. I'm not aware of any situation in  
21 North Carolina for that. I know staff's position for  
22 the -- for the, say -- the regulatory expense  
23 amortization was a re-amortization of prior items. And  
24 I know of a few jurisdictions, I think Pennsylvania and

1 New Jersey and some others that have done  
2 re-amortizations of deferrals.

3 Q. On page 17, let's see, line 17 to 21, one of  
4 your proposals is to -- that once the unamortized  
5 deferred assets approved, if they're approved in the  
6 proceeding, are exhausted, you propose to implement a  
7 SIR credit, and any amount determined to be refunded be  
8 credited to customers over one year and accrue interest  
9 at an appropriate short-term interest rate, especially  
10 if refunds commence at or before January 1, 2019.

11 At what short-term interest rate were you  
12 thinking of?

13 A. Unfortunately, I didn't have one offhand, but  
14 anything that would reflect the retention of funds for  
15 one calendar year or less. Because the idea being that  
16 if funds were collected in January of 2018, those funds  
17 were beginning to be refunded in January of 2019, so  
18 there's no more than a one-year retention, say, of  
19 those funds. That being the case, it seems that -- the  
20 cost of capital rate seems too high for something  
21 that's refunded within a 12-month period from when it  
22 was generated.

23 Q. Okay. So you are working on the supposition  
24 that the short-term rate would be much lower than the

1 weighted -- overall weighted cost of capital?

2 A. Yeah. Generally, my understanding of  
3 short-term borrowing rates of different types of  
4 treasury rates, things like that are, you know, very  
5 low, in the 2 percent range, say, give or take.

6 Q. And would you accept, subject to check, that,  
7 based on the Company's requested ROE of 11.5 percent,  
8 the weighted overall cost of capital rate would be  
9 around 8.64 percent?

10 A. Subject to check, that sounds right.

11 Q. Okay. Now, along those same lines, isn't it  
12 true that, in this rate case that the Company filed,  
13 related to working capital, and to those costs, the  
14 working capital costs that are part of rate base, isn't  
15 the overall weighted cost of capital applied to those  
16 expenses that are included for ratepayer recovery?

17 A. I'm sorry, can you restate that question?

18 Q. Okay. For the short-term capital needs of  
19 the Company, including this rate cap related to -- let  
20 me start over.

21 For the Company's filed short-term capital  
22 needs related to working capital that are included in  
23 this rate case, there is a cost of capital applied to  
24 those expenses which equate to the weighted overall

1 cost of capital; isn't that correct?

2 A. Are you referring to cash working capital  
3 or --

4 Q. Yes.

5 A. Okay. Right. And that's a rate base item,  
6 so that would be earning at the cost of capital, yes.

7 Q. Exactly. Exactly.

8 A. And the cost -- and the cash working capital,  
9 although it's short-term movements of funds, it's a  
10 continuous running lead-lag consideration, so that's  
11 why it's considered a long-term item in lines in rate  
12 base.

13 Q. Right. And that's for ratepayer recovery --  
14 recovery from ratepayers, correct?

15 A. Return on that run -- basically, a running  
16 balance, an estimated running balance, yes.

17 Q. Okay. So you're asking the Commission to  
18 approve recovery of the Company's cost at the higher  
19 interest rate, yet you want to return ratepayer money  
20 at the lower rate; is that correct?

21 A. So --

22 Q. The short-term debt rate.

23 A. Again, the consideration for cash working  
24 capital is that, while there's multiple short-term

1 transactions that flow through that, that's a long-term  
2 cash flow gap, and that's why that's a rate base item.  
3 It's not something that, say, you know, amortizes over  
4 one year or anything like that. It's a continuous  
5 item. Similar to the tax accrual item, which is a rate  
6 base item as well, it's a continual difference  
7 between -- in cash flow. And that's why that's a rate  
8 base item, and that's why there's a rate of return  
9 level attached to it and it's treated as a long-term  
10 item, as opposed to a refund to customers for  
11 collections that were done within one year -- one year  
12 or less, which the funds have come in and gone back out  
13 the door in less than one year, or within a year.

14 Q. I see.

15 MS. HOLT: I have no further questions.

16 CHAIRMAN FINLEY: Redirect?

17 MS. SANFORD: Chairman Finley, I have no  
18 questions on these questions, but  
19 Commissioner Clodfelter asked a few minutes ago for  
20 a response about hurricane -- recovery of  
21 hurricane. So this is the right witness, so with  
22 that.

23 EXAMINATION BY COMMISSIONER CLODFELTER:

24 Q. I just want to be sure I understand the



1 position correctly. As I read your rebuttal testimony,  
2 the Company's asking for a deferral accounting order,  
3 but at this point, in this case, not asking for any  
4 recovery mechanism to be established. You want to wait  
5 and see what costs you accumulate and you want to wait  
6 and see what happens to insurance.

7 So you're not currently asking for any cost  
8 recovery mechanism be established in this case; is that  
9 correct?

10 A. Correct. We're not asking for a specific  
11 dollar at this point. I know Mr. Mendenhall cited  
12 estimated capital recovery or capital needs and things  
13 like that, but there's additional costs that are  
14 continuing; you know, rental of -- temporary rental of  
15 pumps, and filters, and things like that. So I  
16 think -- yeah, I think that's what we are asking, is  
17 the authorization to do deferral accounting, capture  
18 the cost, and then at a later date, probably maybe the  
19 next rate case, we can review them for prudence and  
20 amortization.

21 Q. Okay. That's -- I just wanted to be sure I  
22 was correctly understanding what you put on paper.

23 A. Sure.

24 Q. Thank you.

1           A.     Thank you.

2           EXAMINATION BY CHAIRMAN FINLEY:

3           Q.     And if you waited to the next rate case, you  
4           would -- I assume you would request no depreciation  
5           expense until the next rate case when the deferral goes  
6           into place?

7           A.     Yeah. I think we would unwind to say, so to  
8           speak, that deferred account together, yes.

9           Q.     Okay. In his rebuttal testimony, witness  
10          D'Ascendis recommended a rate of return on equity of  
11          11.5 percent and 11.9 percent, and then it was updated  
12          to 10.8 percent or 11.2 percent. And in its filing,  
13          the Company used rate of return on equity of  
14          11.5 percent.

15                 But what -- after all that is said and done,  
16          what -- at the end of the day, what rate of return on  
17          equity are you requesting in this case?

18          A.     I think, if it wasn't stated in Mr. -- so  
19          just a range was stated in Mr. D'Ascendis' testimony?

20          Q.     He had 11.5 percent in the application and  
21          the witness had ranges -- ranges -- and the ranges  
22          changed, so here we are at the end of the case, what  
23          are you asking for?

24          A.     So I believe -- I think you mentioned that

1 his range went from 10.8 to 11.2. Where I believe  
2 that -- I interpret that as being that we're requesting  
3 10.8, and to the extent a size adjustment is considered  
4 and approved, 11.2.

5 Q. I see. Let's talk about the CIAC and the  
6 planned acquisition adjustments or the premium  
7 acquisition adjustments, it's called different things.  
8 On page 10 of 23, beginning on line 4 of your rebuttal  
9 testimony, you asserted that the actual amortization  
10 rates should be used for the calculation of the CIAC  
11 and PAA amortization expense rather than a composite  
12 rate based on the direct plant in service used by  
13 witness Feasel.

14 What is the source of the actual amortization  
15 used? For example, is it the Company's depreciation  
16 instead, if you know?

17 A. I was just speaking to the rates that are  
18 currently in place and the Company is currently  
19 utilizing on its books, and I believe the staff, in  
20 their exhibits -- I don't recall the depreciation  
21 exhibit, but they did the calculation for composite  
22 depreciation and they list out the individual rates for  
23 each asset account. And our request here was that, to  
24 the extent there's a one-to-one match between the

1 utility plant count and the CIAC account, that we  
2 should use the same rate for that particular account's  
3 balance, and not just the composite rate for the entire  
4 CIAC balance, because the mix of assets is different  
5 between the two.

6 Q. Does that answer the question of the source  
7 of the actual amortization rates that you used?

8 A. Yeah. Again, I'm not familiar with the  
9 source when the last time a depreciation study was  
10 performed.

11 Q. All right.

12 A. But I don't believe they were disputed -- the  
13 rates were disputed for depreciation by staff in their  
14 position.

15 Q. So do you know whether or not the Commission  
16 has approved the amortization rates that you are  
17 indicating?

18 A. Generally, my understanding in utility  
19 accounting, as to the extent you have depreciation --  
20 specific depreciation rates for asset accounts, the  
21 CIAC -- the equivalent CIAC balance will be amortized  
22 at the exact same rate so that there's net effect of  
23 zero for that -- that on your income statement. If a  
24 different rate is used, you'll either have a benefit or

1 a negative on your income statement if you have  
2 different rates for the same items.

3 Q. You heard the testimony of witness Henry  
4 earlier today saying that there was some difficulty in  
5 the past and perhaps even now of recording tap fees and  
6 the difficulty of assigning the tap fees to the right  
7 plan.

8 Did you hear that testimony?

9 A. Yes, I did.

10 Q. What is your response to that?

11 A. Yes.

12 Q. Did you have that difficulty in coming up  
13 with your testimony?

14 A. I recognize what he's speak to after  
15 reviewing the records, and I provided Mr. Henry or  
16 worked with Mr. Henry to -- so we were looking at the  
17 same information when we were reviewing this recently.  
18 So I did identify that there were certain CIAC accounts  
19 that are called tap fee, reconnect fee, things like  
20 that that probably don't have an equivalent plan  
21 account. But that shouldn't preclude the other CIAC  
22 balances from being calculated -- the amortization  
23 being calculated based on their one-to-one matches.  
24 And to the extent tap fees are contributed -- again,

1 I'm not aware of any depreciation study or anything  
2 that would have set a rate for them, a specific rate  
3 for them, but the Company's amenable to, say, using the  
4 composite depreciation rate for those as a proxy if  
5 that's necessary, but not for the entire CIAC balance,  
6 just for the accounts that don't have one-to-one  
7 matches.

8 Q. So but for that potential compromise that  
9 you've identified there, you stick by your testimony,  
10 you're not so bothered by what Mr. Henry testified to;  
11 is that right?

12 A. I disagree that using -- that it's proper to  
13 use the composite depreciation rate on your total CIAC  
14 balance, because the asset mixes are different, so the  
15 composite rates would be different, assuming each  
16 individual line item has the same depreciation rate,  
17 2 percent on one side, 2 percent on the other,  
18 et cetera.

19 Q. So your recommendation is more refined than  
20 what the general recommendation that he makes; is that  
21 correct?

22 A. Yes. And it will match -- again, the point  
23 there is to match -- the proper utility accounting is  
24 to match on the books the CIAC amortization, which is

1 the credit on the income statement, and the  
2 depreciation expense, which is a debit on the income  
3 statement, so that there's no net benefit or detriment  
4 to the Company from contributed property.

5 CHAIRMAN FINLEY: Other questions of  
6 this witness? Questions on the Commission's -- do  
7 you have a question, Commissioner Brown-Bland?

8 EXAMINATION BY COMMISSIONER BROWN-BLAND:

9 Q. Let me see if I get an opportunity to say  
10 DeStefano. Did I get that correct?

11 Mr. DeStefano, so with regard to the last  
12 questions from the Chairman and the composite rate  
13 there, did -- the Public Staff seemed to put a lot of  
14 emphasis just in general on being consistent with this  
15 company from case to case.

16 Is it your view that there are other things  
17 in this situation that's more important than  
18 consistency when it comes to the composite rate?

19 A. I think -- I think -- as I mentioned, I think  
20 the proper accounting is to match your CIAC  
21 amortization with the applicable utility plant assets.  
22 Usually what's done is you -- when you get to attribute  
23 a property, you have a CIAC increase and you have a  
24 utility plant increase that is equivalent in the same

1 account, and they amortize and depreciate on the same  
2 level, so there's no impact on to your income  
3 statement, effectively. Basically, the Company  
4 shouldn't be punished for having contributed property  
5 or shouldn't benefit from having contributed property.  
6 So, to me, that's the property accounting. And this  
7 methodology doesn't match what the Company is doing on  
8 its books, which I believe is proper accounting.

9 Q. And that was -- I mean, and it's good to have  
10 proper accounting, and that's what we want, but if it's  
11 been done one way consistently in the past, is there  
12 something lost in between when we make a shift or if we  
13 were to make a shift?

14 A. I think, as was mentioned earlier in the  
15 examination of Mr. Henry, his calculation would move  
16 our revenue requirement about \$330,000, just based on,  
17 again, a simple accounting matching necessity. So I  
18 think it does have an impact to the Company, and that's  
19 why I think it makes sense to -- to the extent we have  
20 the data to do it, and I believe we have the data to do  
21 it, where we can match one to one on these accounts, we  
22 should do it and balance things out.

23 Q. But if you remain consistent throughout, does  
24 that -- is there an argument to be made that, over



1 time, it balances out both ways for everybody?

2 A. I mean, technically, when an asset is  
3 fully -- no, it won't -- it won't -- I don't believe it  
4 will balance out to the extent that the Company's  
5 recovery through rates and what's happening on its  
6 books will not be in sync. And in this sense -- in  
7 this case, it's a detriment to the Company, a detriment  
8 to its revenue requirement, when I believe the Company  
9 is doing proper accounting on its books.

10 Q. Thank you.

11 CHAIRMAN FINLEY: Questions on the  
12 Commission's questions?

13 MS. FORCE: I do.

14 RECROSS EXAMINATION BY MS. FORCE:

15 Q. Mr. DeStefano, I'm a little confused about  
16 the request that's included in your testimony on page  
17 12, and you had some questions from  
18 Commissioner Clodfelter about it.

19 I think what your -- do I understand you  
20 correctly that the Company is, as of Friday, requesting  
21 a deferral accounting order from the Commission in  
22 order to be able to examine storm-related costs in a  
23 future proceeding?

24 A. That's correct.

1 Q. But you haven't petitioned for that  
2 separately, this is just something that appeared in  
3 your testimony; am I right, or am I missing something?

4 A. To this point it's appeared -- it's just  
5 appeared in my testimony to the extent I'm aware.

6 Q. Perhaps you don't know, but is there a plan  
7 by the Company to put in some sort of a formal request  
8 for the deferral accounting?

9 A. If that's necessary -- again, I'm relatively  
10 new to this jurisdiction, but if that's necessary in  
11 this jurisdiction, then the Company will do so.

12 Q. Let me ask you this: Is there or is there  
13 not any provision in your rates at this point for  
14 recovery of costs that are similar to what you  
15 experience? Not taking into account the magnitude of  
16 the storm, but repairs. Aren't there other storms that  
17 the Company experiences that would have some sort of a  
18 baseline in rates that --

19 A. I'm not familiar with any storm, at least in  
20 recent years, that affected the system to the extent  
21 that this storm did.

22 Q. You're talking about a different kind of  
23 magnitude, is that --

24 A. Correct. So --

1 Q. But we don't know what that magnitude is at  
2 this point, because you haven't put any information in,  
3 other we see some --

4 A. Right. Yeah. So Mr. Mendenhall has started  
5 pulling together the information and we started  
6 incurring some operating expenses, you know, temporary  
7 operating expenses, as well as expected capital  
8 responses in the future. And his number of  
9 \$2.4 million, \$2.5 million is a good, say, 25 percent  
10 or so of what we would normally put in capital  
11 assessment in a year. So it's significant increase to  
12 our normal capital routine.

13 MS. FORCE: I don't have other  
14 questions.

15 CHAIRMAN FINLEY: Any other questions?

16 MS. SANFORD: No questions, sir.

17 CHAIRMAN FINLEY: All right. We will  
18 accept his rebuttal exhibits, and to the extent I  
19 have failed to accept exhibits, direct or cross.  
20 Let me clean that up and say that they're all  
21 accepted.

22 (Clark Appendix 1, Exhibit 5; Boswell  
23 Supplemental Exhibit 2; and Boswell  
24 Supplemental Exhibit I, Schedule

1 2(a) were admitted into evidence.)

2 CHAIRMAN FINLEY: We've identified the  
3 witness as Mr. Ben Farmer who is from Jordan Woods.  
4 Let us know whether he is correct about what he  
5 said about the magnitude of the increase for him in  
6 the last case, and if he's wrong, you need to tell  
7 him so.

8 MS. SANFORD: We will do that.

9 CHAIRMAN FINLEY: All right. We've  
10 heard indirectly over the course of the last few  
11 days suggestions of a potential stipulation in  
12 addition to what we've heard today.

13 Is there any such further stipulation  
14 coming or not?

15 MS. SANFORD: Yes, sir, there is. I'm  
16 looking to Ms. Holt to be sure we're on the same  
17 page. We are working on one. We had hoped to have  
18 one today, and we're very close. But there is a  
19 stipulation of agreement between the -- it's a  
20 partial stipulation between the Public Staff and  
21 the Company and covers a fair number of issues.

22 Tomorrow? Tomorrow? Do you think we  
23 could have it tomorrow?

24 MS. HOLT: I hope so. We'll work toward

1 it.

2 CHAIRMAN FINLEY: We'll be anxious to  
3 get it.

4 MS. SANFORD: We're very close, but then  
5 we had to stop and have the hearing.

6 CHAIRMAN FINLEY: Well, that does sort  
7 of get in the way, doesn't it? What about briefs  
8 and proposed orders?

9 MS. SANFORD: Thirty days, normal time.

10 CHAIRMAN FINLEY: Thirty days from the  
11 filing of the last transcript?

12 MS. SANFORD: Yes. Yes, sir.

13 CHAIRMAN FINLEY: All right. And  
14 request from the staff here: Please provide the  
15 commission staff and any other party who requests  
16 them, the Excel files used by the Public Staff  
17 witnesses Henry, Feasel, Johnson, Boswell, and  
18 Casselberry to calculate the pro forma adjustments,  
19 revenue requirements, and rates in this proceeding  
20 for each of the significant SNCs, four rate  
21 divisions. The Excel files provided should also  
22 include Henry Supplemental Exhibit 2, Schedule 1  
23 with working formulas. These Excel files should be  
24 provided to the Commission staff as soon as

1 reasonably possible after the close of the  
2 evidentiary hearing. I think that's sort of a  
3 customary request the Commission staff makes.

4 MS. SANFORD: And when it's appropriate,  
5 I have a few more documents to move into the  
6 record, please.

7 CHAIRMAN FINLEY: All right. Go right  
8 ahead.

9 MS. SANFORD: All right. The rate case  
10 application including the W-1 filed April 27th and  
11 the confidential documents; amendment to  
12 application filed May 16th; ongoing three-year  
13 WSIC/SSIC plan filed May 30th; the customer reports  
14 from New Bern and Wilmington, which were  
15 consolidated, filed September 18th; from Charlotte,  
16 which was filed October 4th; from Asheville filed  
17 October 15th; and then from the Boone -- from the  
18 Boone hearing, which will be filed tomorrow. Which  
19 means we owe you Raleigh.

20 CHAIRMAN FINLEY: Well, I can accept  
21 everything except stuff that hadn't been filed.

22 MS. SANFORD: That hadn't been filed,  
23 that's right.

24 CHAIRMAN FINLEY: Any objection to those

1 requests?

2 MS. HOLT: No. No objection.

3 CHAIRMAN FINLEY: All right. Those  
4 requests are honored, and those documents shall be  
5 put in the record.

6 (Rate Case application, including the  
7 W-1 filed April 27th and the  
8 confidential documents; amendment to  
9 application filed May 16th; ongoing  
10 three-year WSIC/SSIC plan filed  
11 May 30th; the customer reports from New  
12 Bern and Wilmington, from Charlotte, and  
13 from Asheville were admitted into  
14 evidence.)

15 CHAIRMAN FINLEY: Anything else?

16 (No response.)

17 CHAIRMAN FINLEY: All right. Finished  
18 at 5:00. Thank you all very much for your  
19 participation and I look forward to hearing from  
20 you. The record is closed, except for what we've  
21 asked for to be supplemented.

22 (The hearing was adjourned at 5:01 p.m.  
23 on Tuesday, October 16, 2018.)

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CERTIFICATE OF REPORTER

STATE OF NORTH CAROLINA )  
COUNTY OF WAKE )

I, Joann Bunze, RPR, the officer before whom the foregoing hearing was taken, do hereby certify that the witnesses whose testimony appears in the foregoing hearing were duly sworn; that the testimony of said witnesses was taken by me to the best of my ability and thereafter reduced to typewriting under my direction; that I am neither counsel for, related to, nor employed by any of the parties to this; and further, that I am not a relative or employee of any attorney or counsel employed by the parties thereto, nor financially or otherwise interested in the outcome of the action.

This the 18th day of October, 2018

FILED  
OCT 18 2018  
NOTARY PUBLIC

*Joann Bunze*



JOANN BUNZE, RPR

Notary Public #200707300112



**FILED**

**OCT 19 2018**

**Clerk's Office  
N.C. Utilities Commission**