PLACE: Dobbs Building, Raleigh, North Carolina

DATE: Monday, April 10, 2023

DOCKET NO.: W-218, Sub 573

TIME: 11:00 a.m. - 1:24 p.m.

BEFORE: Commissioner ToNola D. Brown-Bland, Presiding
Chair Charlotte A. Mitchell
Commissioner Daniel G. Clodfelter
Commissioner Kimberly W. Duffley
Commissioner Jeffrey A. Hughes
Commissioner Floyd B. McKissick, Jr.
Commissioner Karen M. Kemerait

IN THE MATTER OF:

Application by Aqua North Carolina, Inc., 202 MacKenan Court, Cary, North Carolina 27511, for Authority to Adjust and Increase Rates for Water and Sewer Utility Service in All Its Service Areas in North Carolina and for Approval of a Water and Sewer Investment Plan

VOLUME 13

A P P E A R A N C E S:

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P R O C E E D I N G S

COMMISSIONER BROWN-BLAND: Good morning. We'll come to order now and go on the record.

I'm Commissioner ToNola D. Brown-Bland, presiding Commissioner for this hearing. And with me are Chair Charlotte A. Mitchell; Commissioners Daniel D. Clodfelter, Kimberly W. Duffley, Floyd B. McKissick, Jr., and Karen M. Kemerait. And I do believe Commissioner Jeff Hughes will be joining us.

In accordance with the Commission's order issued on March the 20th, 2023, the expert witness hearing in Docket Number W-218, Sub 573, In the Matter of: Application by Aqua North Carolina, Inc., for Authority to Adjust and Increase Rates for Water And Sewer Utility Service, is being resumed and the evidentiary record reopened to receive testimonial and documentary evidence as appropriate as regards the partial settlement agreement and stipulation between the parties, which was reported to the Commission and ultimately filed with the Commission on March 31, 2023.

Pursuant to the Commission's March 20th order, on March 31, 2023, the parties filed proposed orders, the partial settlement agreement and stipulation, and supporting testimony.

Aqua filed the settlement testimony of witnesses Shannon Becker and the joint testimony and exhibits of witnesses Dean Gearhart and David Haddad.

The Public Staff filed the joint testimony and exhibits of witnesses Lynn Feasel and Charles Junis.

That brings us up to date. And since time has passed, I again remind the members of the Commission of our duty to avoid conflicts of interest under the State Government Ethics Act, and inquire at this time to whether any Commissioner has any known conflict of interest with respect to this docket.

(No response.)

COMMISSIONER BROWN-BLAND: The record will reflect that no conflicts have been identified.

And I will take appearances of counsel for clarity of the record, and in case there's been any change.

MS. SANFORD: Thank you, Commissioner

Brown-Bland. I'm Jo Anne Sanford with Sanford Law Office representing Carolina Water [sic].

With me at counsel table is David Drooz for Fox Rothschild, also representing Carolina Water [sic], and Shannon Becker, the state president.

With us in the audience, in case the Commission has questions that go beyond our panels -- that have prefiled our panel, we have Amanda Berger, Joe Pearce, and Bill Packer.

Thank you.

COMMISSIONER BROWN-BLAND: Thank you.

Mr. Drooz?

MR. DROOZ: Yes. David Drooz, and -- here to represent Aqua North Carolina.

Also wanted to introduce an attorney from our law firm who's here for observation purposes, Jack Taggart, who we hope will be doing some utility work along with me in the future. And --

COMMISSIONER BROWN-BLAND: Well, we hope we don't scare him off. And welcome.

MR. DROOZ: Thank you.

COMMISSIONER BROWN-BLAND: Go ahead.

Glad to have you this morning.

MR. DROOZ: And we have some preliminary matters after counsel make their appearance.

COMMISSIONER BROWN-BLAND: All right. Let's hear from the Public Staff.

MS. CULPEPPER: Good morning. Elizabeth Culpepper with the Public Staff appearing on behalf of the using and consuming public. With me today are Megan Jost and William Freeman.

COMMISSIONER BROWN-BLAND: Good morning.

MS. CULPEPPER: Oh, we also have Michelle Boswell if there's additional questions that she can answer, in addition to our panel prefiled testimony.

COMMISSIONER BROWN-BLAND: All right. Thank you.

All right. So now we are down to preliminary matters. Mr. Drooz?

MR. DROOZ: Thank you. We filed a stipulation in this matter. We have a stipulation settlement. It indicates that it has attached a settlement exhibit.

Actually, that was, instead, filed with the Public Staff testimony, rather than attached to the filed stipulation. It's in the record. It's just in a different place. Just wanted to note that. And at the appropriate time, we'll move the stipulation into evidence.

Both parties have filed settlement testimony and exhibits and have agreed to the admissibility of that prefiled testimony and exhibits and waive cross-examination, while reserving the right to ask any questions on Commission questions.

And let's see what else.

Aqua Settlement Exhibit 2 has a label on it. It says it's privileged and confidential. That was during the negotiation process.

It is not as filed privileged and confidential. There is no confidential material being presented today or in the prefilings for the settlement.

And the -- I would note, and really ask the Commission's opinion on this, we filed a proposed order that was incomplete in formatting. We can -- the substance of it is intact and would not change. If the Commission wants the formatting updated to a proper format, we'll do that and refile that, but that's entirely within y'all's discretion. There wouldn't be any content change.

And it, frankly, probably isn't that necessary. The Public Staff's is properly formatted, and the numbers on revenue requirement are gonna change anyway, depending on the Commission's decision.

COMMISSIONER BROWN-BLAND: All right. Thank you, Mr. Drooz.

Anything preliminarily from the Public Staff?

MS. CULPEPPER: Yes.

On March 29, 2023, the Public Staff filed its Second Corrected Accounting Exhibit 1, consisting of 58 pages, and Public Staff's Second Corrected WSIP Exhibit 1, consisting of 150 pages.

The testimony in transcripts Volume 7, page 167, sets out the corrections reflected in the Public Staff's Second Corrected Accounting Exhibit 1.

The testimony and transcript Volume 8, page 9, sets out the corrections reflected in Public Staff's Second Corrected WSIP Exhibit 1.

Those corrected exhibits are the

starting point for the settlement exhibits. The purpose of introducing the corrected exhibits is so that the basis for the settlement exhibits is established.

The revenue requirement impact for both settled items and unsettled items are reflected in Public Staff Settlement Exhibit 1.

The Public Staff moves that the Second Corrected Accounting Exhibit 1 and Public Staff Second Corrected WSIP Exhibit 1 be identified as marked when filed and entered into evidence.

MR. DROOZ: No objection.

COMMISSIONER BROWN-BLAND: There being no objection, that will be allowed and they will be so identified.

MS. CULPEPPER: Thank you.

COMMISSIONER BROWN-BLAND: Both of the corrected exhibits.

(Second Corrected Accounting Exhibit 1 and Public Staff Second Corrected WSIP Exhibit 1 were admitted into evidence.)

MS. CULPEPPER: Thank you. And we have one more exhibit.

On March 30, 2023, the Public Staff

filed Public Staff Supplemental WSIP Exhibit 7, consisting of four pages.

The modifications made by the Public Staff to four of its recommended performance-based metrics were provided in recognition of the Commission's comments and questions during the evidentiary hearing.

The Public Staff moves that Public Staff Supplemental WSIP Exhibit 7 be identified as marked when filed and entered into evidence.

COMMISSIONER BROWN-BLAND: Is there any objection?

MR. DROOZ: No objection, given the admissibility of Mr. Becker's settlement testimony, which briefly speaks to that.

COMMISSIONER BROWN-BLAND: All right. That will also be allowed.

MS. CULPEPPER: That concludes our preliminary matters.

COMMISSIONER BROWN-BLAND: And they will be received into evidence.

(Public Staff Supplemental WSIP Exhibit 7 was admitted into evidence.)

MS. CULPEPPER: Thank you.

COMMISSIONER BROWN-BLAND: All right. Nothing further preliminarily? Then we'll hear from the applicant on the stipulation.

MR. DROOZ: Aqua calls Mr. Becker, Mr. Haddad, and Mr. Gearhart to the stand.

We, with the Commission's indulgence, put them all up at the same time so we don't have to keep switching questions back and forth between different groups.

COMMISSIONER BROWN-BLAND: That works for us. Thank you.

All right. Can everyone get their left hand to the Bible and raise your right? And you're all technically still under oath, but we're gonna do it anyway.

Whereupon,

SHANNON V. BECKER, DAVID HADDAD, AND DEAN R. GEARHART,
having first been duly sworn, were examined
and testified as follows:

DIRECT EXAMINATION BY MR. DROOZ:

Q. Would each of you, in turn, please state your name for the record and your position with Aqua.

A. (Shannon V. Becker) My name is Shannon Becker. I'm the president for Aqua

North Carolina.

A. (David Haddad) David Haddad, consultant.

A. (Dean R. Gearhart) Dean Gearhart, rates and planning manager for Aqua North Carolina.

Q. And have you prefiled settlement testimony and, in the case of Mr. Haddad and Gearhart, exhibits with that in this proceeding?

A. We have.

A. (David Haddad) Yes.

Q. Do you have any changes to your settlement testimonies or exhibits?

A. No.

A. (Dean R. Gearhart) No.

Q. If asked those questions today from the stand, would your answers be the same?

A. (Shannon V. Becker) They would.

A. (Dean R. Gearhart) Yes.

A. (David Haddad) Yes.

Q. Okay.

MR. DROOZ: We'd ask that their prefiled settlement testimony be admitted into the record and their exhibits be marked as identified.

COMMISSIONER BROWN-BLAND: All right. That motion will be allowed.

(Aqua Settlement Exhibits 1 and 2 were admitted into evidence.)

(Whereupon, the prefiled settlement testimony of Shannon V. Becker and prefiled joint settlement testimony of Dean R. Gearhart and David Haddad were copied into the record as if given orally from the stand.)

I. INTRODUCTION

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

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

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

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

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

A. Yes, I did.

Q. WHAT IS THE PURPOSE OF YOUR SETTLEMENT TESTIMONY?

A: The purpose of my settlement testimony is to provide an overview of, and explain and support, the Stipulation of Partial Settlement ("Stipulation") reached with the Public Staff in this proceeding.

II. OVERVIEW OF STIPULATION

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

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

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

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

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

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

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

A. First, regarding Safe Drinking Water Act compliance and Clean Water Act compliance, the Company is certainly willing to track this as a metric. This is a fairly standard metric for tracking purposes. The area of disagreement involves what level of compliance the Company should be held to, at least in this first WSIP rate case, that the PS is proposing and against which any associated incentive or penalty would be calculated. Industry trends, standards, or benchmarks have not been identified that would allow for the establishment of a target that may be used as a consistent guide across the industry representative of poor or strong utility operations if met, and the parties submit that disagreement to the Commission for decision as an unsettled issue.

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

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

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

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

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

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

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

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

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

B. Rate Design for Huntley Glen, Park South, and Parkway Crossing. The Stipulating Parties agree that rates for the Huntley Glen, Park South, and Parkway Crossing systems should be based on the base charge for metered sewer service agreed to by the Stipulating Parties in Subsection A above, plus the Charlotte Water sewer usage rate, and that this rate design will produce rates that are just and reasonable as a compromise for settlement purposes.

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

Q. PLEASE HIGHLIGHT OTHER AREAS OF SETTLEMENT.

A. The Stipulation also includes mutual agreement on the following:

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

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

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

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

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

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

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

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

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

III. PUBLIC INTEREST

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

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

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

Q. PLEASE IDENTIFY SOME OF THE COMPROMISES MADE BY THE

COMPANY.

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

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

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

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

A. Yes, it is.

Q. DOES THIS CONCLUDE YOUR PREPARED SETTLEMENT TESTIMONY?

A. Yes, it does.

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Dean R. Gearhart. My business address is 202 MacKenan Court, Cary, NC 27511.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by Aqua North Carolina, Inc. ("Aqua", "Aqua North Carolina", or "Company") as the Rates and Planning Manager; as such, I provide financial supervision and guidance to the president of the state organization.

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is David Haddad, I am a consultant with Regulated Capital Consultants, LLC (RCC), and my business address is 4355 Cobb Parkway, Suite J255, Atlanta, GA 30339. My role in this case is to provide support to the Aqua North Carolina finance team to manage delivery of all filing requirements associated with the North Carolina Utilities Commission (NCUC or Commission) Form W1 (Items 1-7 30). Specifically, I have worked with the Company to develop the rate case accounting model exhibits to satisfy the requirements of NCUC Rule R1 17A in relation to the Water System Improvement Plan (WSIP).

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

A. Yes, we did.

Q. WHAT IS THE PURPOSE OF YOUR SETTLEMENT TESTIMONY?

A. The purpose of our settlement testimony is to explain and support specific items described in the Stipulation of Partial Settlement ("Stipulation") reached with the Public Staff in this proceeding, as noted in the Becker settlement testimony.

Q. PLEASE PROVIDE AN OVERVIEW OF THE ITEMS FURTHER DETAILED IN THIS TESTIMONY.

A. This testimony will cover how the revenue requirements are calculated for the multi-year rate plan or "WSIP" (Water and Sewer Investment Plan) Rate Years 1, 2, and 3 in the Stipulation reached between Aqua and the Public Staff. In addition, this testimony discusses the Stipulation provisions related to the WSIP revenue requirements, O&M adjustments, and capital additions for plant-in-service included in rate base

II. REVENUE REQUIREMENTS

Q. PLEASE GIVE A BRIEF OVERVIEW OF THE STIPULATION AS IT RELATES TO REVENUE REQUIREMENTS DURING THE TERM OF THE AGREED UPON MULTI-YEAR RATE PLAN?

A. The Stipulation provides for a 3-year multi-year rate plan, with Rate Year 1 beginning January 1, 2023; Rate Year 2 beginning January 1, 2024; and Rate Year 3 beginning January 1, 2025. The rates agreed to are based on an historical test year ended December 31, 2021, and updated for certain actual activity through August 31, 2022 (the Base Case). Included in agreed upon Rate Year 1 – 3 revenue requirements are the Company's reasonably known and measurable capital investments and anticipated reasonable and prudent expenses, further detailed below in Section III.

It is worth note that the Company and the Public Staff have not reached agreement on several issues as outlined in Mr. Becker's testimony. As a result, the revenue requirements agreed to and presented in the Stipulation are incomplete, in the sense that the Commission's decision on contested issues including PFAS costs, SIP/SAP costs, the Wakefield project adjustment, and the authorized rate of return on equity will affect the final revenue requirement and rates.

Aside from the impact of the remaining contested issues, the agreed-upon revenue requirements are presented in Public Staff Settlement Exhibit 1.

The Base Case for this rate case is the 12-month test period ending December 31, 2021, adjusted for certain changes in plant, revenues, and costs that were not known at the time the case was filed but are based upon circumstances occurring or becoming known through August 31, 2022, and including regulatory commission expense up to the close of the evidentiary hearing. The Base Case revenue requirements are used as the starting point for the revenue requirements for WSIP Rate Years 1, 2, and 3. The starting point for revenue requirements utilizes the Public Staff's corrected exhibits, adjusted for certain mutually agreed upon updates such as Regulatory Commission Expenses, with the following exceptions:

a. the Stipulating Parties agree to an adjustment to salaries and wages in the amount of ($195,143) to remove four open positions from the

Company's filings, which includes the update to salaries and wages through August 31, 2022. The Stipulating Parties also agree to an adjustment to benefits associated with the four open positions in the amount of ($42,843). This adjustment is contingent upon the conditions set forth in subsections IV.C. and D of the Stipulation.

b. The Stipulating Parties agree to an adjustment in the amount of ($264,603) to purchased water and sewer expense.

c. The Stipulating Parties agree to amortize the rate case expenses in the current proceeding over four years and update prudent and reasonable actually incurred rate case expense through the conclusion of hearing.

The revenue requirement for **Rate Year 1** used the Base Case revenue requirement described above, then made further adjustments as follows:

- Corrected accumulated depreciation to reflect certain plant retirements (these adjustments carry over to Rate Years 2 and 3)
- Escalated Base Case O&M expenses by 3.04%, except for items with specific projections or applicable tracking mechanisms.
- Escalated salaries and wages by 3.0%.
- Purchased water services and sewer pass through amounts remain at the Base Year levels (0% increase) for the WSIP period.
- Transportation-fuel remains at the Base Year level (0% increase) for the WSIP period.
- Escalated property taxes by 3.31%.

The revenue requirement for **Rate Year 2** used the Base Case revenue requirement adjusted for rate Year 1 described above, then made further adjustments as follows:

- Escalated Base Case O&M expenses by 3.04%, except for items with specific projections or applicable tracking mechanisms.
- Escalated salaries and wages by 3.0%.
- Purchased water services and sewer pass through amounts remain at the Base Year levels (0% increase) for the WSIP period.
- Transportation-fuel remains at the Base Year level (0% increase) for the WSIP period.
- Escalated property taxes by 3.31%.

The revenue requirement for **Rate Year 3** used the Base Case revenue requirement adjusted for rate Year 2 described above, then made further adjustments as follows:

- Escalated Base Case O&M expenses by 3.04%, except for items with specific projections or applicable tracking mechanisms.
- Escalated salaries and wages by 3.0%.
- Purchased water services and sewer pass through amounts remain at the Base Year levels (0% increase) for the WSIP period.
- Transportation-fuel remains at the Base Year level (0% increase) for the WSIP period.
- Escalated property taxes by 3.31%.

Q. WHAT IS THE STIPULATED BASE CASE REGULATORY COMMISSION EXPENSE BASED UPON?

A. The regulatory commission expense is based upon known and actual measurable expenses incurred to facilitate a rate case. The Stipulation provides for the update of prudent and reasonable actually incurred rate case expense through the conclusion of the evidentiary hearing, and with those costs being amortized over an agreed-upon four (4) year amortization period. The balance of historic unamortized rate case expenses (e.g., from W-218 Sub 526 and W-218 Sub 497) are added to the current rate case expenses expected to be incurred during Rate Year 1 only.

III. PLANT IN SERVICE AND ACCUMULATED DEPRECIATION AMOUNTS AND METHODOLOGY

Q. WHAT ARE THE PROVISIONS OF THE AGREEMENT RELATED TO CAPITAL FOR THE WSIP?

A. On March 31, 2023, Aqua filed a revised Form W-1, Item 28. Based on the revised Form W-1, Item 28, which primarily addresses the bridge period of September through December of 2022, the projected plant in service additions and estimated retirements (10% of the plant cost) for WSIP Rate Years 1, 2, and 3 shall be as summarized in Public Staff Settlement Exhibit 2, to which the Commission's decision on the remaining disputed items should apply. The plant in service and accumulated depreciation amounts for WSIP Rate Years 1, 2, and 3 shall be calculated under the Public Staff's methodology of assuming that in each WSIP Rate Year, both plant in service and accumulated depreciation for the WSIP Rate Year reflect a full year of depreciation on Day 1 of such WSIP Rate Year.

The Company's WSIP capital plan for Rate Years 1 - 3 is represented by the information contained in the revised W-1 Item 28 attached as Aqua Settlement Exhibit 2.

The stipulation provides for the Rate Year 1 revenue requirement to include Post In-Service Charges as identified in Aqua Settlement Exhibit 1. This activity was not fully reviewed by the Public Staff and as such, the Public Staff and Aqua agreed to its inspection, review and audit in Aqua's next general rate case.

The stipulation between Aqua and the Public Staff specifically excludes the capital items in Witness Becker's Settlement Testimony.

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

A. Yes, it is.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

MR. DROOZ: And we have dispensed with summaries, and they are available for any questions. They are here to support the settlement, and they're yours.

COMMISSIONER BROWN-BLAND: All right. And before we launch in with our questions, I would just ask that the Public Staff witnesses in the room pay attention, because some of these questions you will at least have a chance to respond. So follow closely.

All right. Well, all the witnesses may help and answer if you have an answer, but we had divided our questions in the way that the testimonies had been filed.

So we started out with questions for Mr. Becker, and I'll just launch in. All right?

EXAMINATION BY COMMISSIONER BROWN-BLAND:

Q. So the previous testimony from Aqua was that Aqua did not plan to seek an EMF adjustment related to the time period between the start of rate year one, which we now know is January 1, 2023, and the date the Commission issues its final order in this proceeding.

Is that still the case, in light of the stipulation?

A. (Shannon V. Becker) There's no change in the original testimony that was filed. And the reason for that was we knew we had the rates under bond that were going to be issued soon after the January 1st date, so we did not feel it necessary to also incorporate an EMF.

Q. And in the Public Staff's proposed order on page 33 in their Findings of Fact Numbers 69 and 70, that's addressing the 5 percent statutory rate cap applicable to years two -- rate years two and three, and they have them listed in their discussion of contested issues.

On page 154 of their proposed order, they note that Aqua calculated its WSIP rate years two and three revenue percentage increase based on each rate division and limited it to the 5 percent cap.

Was the application of a 5 percent cap agreed to as part of the stipulation negotiations, or is it Aqua's position that the application of the 5 percent statutory cap should be by rate division?

A. So I don't believe we had specific discussions on the 5 percent cap in the out years, rate years two and three. We have always intended the 5 percent cap, which is the regulatory requirement under the rule -- or under the legislation as well as the rule, I believe, should always be applied for the out years.

I'm not sure if I'm answering the question. We applied our revenue requirement -- we applied the cap to the revenue requirement for years two and three, the 5 percent cap.

Q. All right. And then we were asking about the rate division. Is it --

A. That is correct, and we did that by rate division.

Q. And so the question is: Was that 5 percent cap agreed to as part of the stipulation, or is it Aqua's position that the 5 percent should be by rate division?

A. I don't know if it's an "or." The rule requires the 5 percent cap, and we adhered to that. I do not recall having that as part of our stipulation that we do 5 percent, because it was a requirement.

Again, maybe I'm misunderstanding. I'm sorry.

Q. No. I think -- I mean, it signals to us that this was not -- it was not a part of the discussion of the stipulation.

A. I do not believe so. I do not recall it if it was.

Q. All right. And the Public Staff applies that 5 percent cap to the service revenues versus the total operating revenues. Has Aqua agreed to that method?

A. (David Haddad) I believe we did the same thing. We applied the 5 percent cap at the service revenue level, not taking into account miscellaneous revenue or uncollectibles.

Q. Okay.

A. And it is by rate entity within our model, but I think it gets you to the same point.

Q. All right.

(Pause.)

Q. All right. Moving on, Neuse Colony wastewater treatment plant expansion.

In Aqua's direct testimony, Aqua has testified that it plans to expand that by 750,000 gallons per day for a total of $10.5 million.

The Public Staff testifies that it thinks Johnston County has adequate capacity to provide both sewer for Flowers Plantation.

How is this issue resolved in the stipulation negotiation?

A. (Shannon V. Becker) The amounts that were identified in our schedules for the out years were agreed to in the stipulation as we presented them, other than the two contested areas, which is the SIP/SAP and the PFAS, PFOA. So the amounts that are in our schedules were agreed to in the stipulation.

Q. So that includes the wastewater treatment expansion?

A. I believe so. I don't know the exact amounts. But the upgrades should be included and were included in the stipulation.

Q. In the capital improvements?

A. Yes. Yes.

Q. All right. In the stipulation, the parties reached agreement on certain ongoing reporting requirements for Aqua.

And as to the Public Staff's recommendation in its prefiled testimony that Aqua continue to provide reports on recommendations by DEQ regarding secondary water quality concerns, has Aqua and the parties agreed on this reporting requirement?

A. Yes. The reporting would continue.

Q. And order in paragraph 38 of the Public Staff's proposed order does not appear to specifically note the report, but Aqua's proposed order in the order in paragraph 15 states the Company will continue that reporting in -- that was ordered in Subs 363, 497, and 526.

Is that compliant with your understanding of the stipulated reporting requirements?

A. It does. We would continue as long as the Commission would like us to, yes.

Q. And the way we read the stipulation, we read it to be there's no longer an issue on the Aqua -- on the meter projects and the Neuse Colony wastewater treatment plan there -- treatment plant; is that correct?

A. The Neuse Colony treatment plant, I do not believe -- and I'm trying to remember. There was discussions during the stipulation regarding meters and services that were removed -- certain meters and services that were removed, but not the meter project.

And that was related -- the request -- if I remember correctly, the request to remove meters and services was because we did not have a corresponding CAIC amount incorporated into our plan to offset those amounts, so we agreed to offset those meters and services.

I don't remember exactly the numbers, but the Public Staff and us, I believe we are in consistent understanding and it is incorporated in the stipulation.

Q. So there is no longer a contested issue as regards to the meter project?

A. Not as far as Aqua's aware.

Q. And as regards to the wastewater treatment expansion at Flowers Plantation?

A. The same.

Q. All right. Now, on page 9, lines 3 to 4, of your settlement testimony, you state that the parties reached mutual agreement on:

"Certain quarterly accounting reporting requirements requested by the Public Staff related to bridge year capital projects included in rate year one?"

What's the reasons for this reporting and what specific information will be provided in that reporting?

A. I'm sorry. Could you repeat the --

Q. I was on page 9, lines 3 to 4.

A. And this is of my settlement testimony?

Q. Yes.

A. I think my page referencing might be off, because mine does not have page numbers.

(Witness peruses document.)

MR. DROOZ: Could that be page 3, line 9?

COMMISSIONER BROWN-BLAND: It might be. Let me check.

MR. DROOZ: On the third page of Mr. Becker's testimony, at lines, like, 8 through 10, it talks about the four PBMs that there's an issue with, if that's what you're asking about.

COMMISSIONER BROWN-BLAND: I don't have the numbers either. That's why I -- let's see.

Which lines were you referencing, Mr. Drooz?

MR. DROOZ: 8 through 10. And again, I don't know if I'm looking at the same thing.

THE WITNESS: If I may, it appears, under the section Overview of Stipulation, the first question: Please provide an overview of stipulation of partial settlement.

On page 9 -- I'm sorry. On line 9, it says:

"After significant discussion, extensive reconciliation by the Company of capital project detail necessary to support the agreed-upon capital positions and projections throughout the base year and WSIP periods. Along with extensive negotiations, the parties have accomplished both goals."

Are you referring there to the reporting?

Q. I'm referring to a quote that specifically deals with the bridge year capital.

MR. DROOZ: Okay. I was in the wrong place then.

Help has arrived.

THE WITNESS: Saved the day.

(Witness peruses document.)

So I'm on page 8. It looks like starting on lines 3 through 4, just to clarify I'm on the right --

Q. Yeah.

A. It says:

"Certain quarterly accounting reporting requirements" --

Q. Yes.

-- "requested by the Public Staff related to bridge year" --

Q. That's the third bullet from the top of that page?

A. Uh-huh. I don't recall if we have the specifics.

Oh. We did agree to -- there was specific accounting reporting requests that were made by the Public Staff. It possibly was in their direct, or maybe it was during testimony during the evidentiary hearing. But there were specific requests of information for the capital projects that were being completed between September 1st and December 31st.

And I'm gonna defer here. I do not recall the exact details that we were going to provide, but it was basically to support the validity of the projects, whether they were in service.

Can you help me with this?

A. (David Haddad) Yeah. So I think what you're asking about are the group of costs in the September to December '22 time period labeled "Post In-Service Charges," about $8.3 million, that are subject to the Commission and the Staff's review in the next rate case.

Q. Yes. That's --

A. Yes.

Q. -- what we're asking about.

A. (Shannon V. Becker) Do we have -- do you have specifics?

A. (David Haddad) Yeah. There's a -- there are schedules, I guess, to understand your question. Those are identified in our Exhibit 2.

A. (Shannon V. Becker) So the projects are identified in Exhibit 2, but you're asking, of the requirements, the follow-up requirements on the reporting, what would we be reporting on?

Q. Right. Why are you reporting and what will you be reporting?

A. (David Haddad) Well, they'll be -- since they've moved into rate year one, they'll be reported under the rule -- under the regulations, the reporting requirements. And I guess the report would show the -- well, maybe I'm a little confused.

These are actual costs already incurred, and they're subject to review in a future proceeding, the next rate case.

Q. And will this review that's referenced here be any different from that subsequent required review?

A. No. I don't expect it to be any different than, I guess, what I would call the "Staff audit" of those costs.

Q. All right. And where in -- where is this specific reporting requirement noted in Stipulation Section G, the reporting requirements?

A. (Shannon V. Becker) Can you repeat the question, Commissioner?

Q. Where can this requirement that we're discussing now be found in the Stipulation Section G, which is about the reporting requirements?

A. I would have to follow up with you. I recall there were specifics that were referenced, I believe, in the Public Staff testimony that dictated what would be included here, but I do not have that answer currently. I would have to follow up.

Or perhaps the Public Staff would be able to provide clarity when they have their witnesses up.

Q. Okay. And does it appear to you that it's been left out, or you just think it might be subsumed in some of the other words?

A. I believe it's subsumed.

Again, as Mr. Haddad had mentioned, these are actual costs, so they're a little different than projections of -- you know, providing the validation of what was in the plan versus what actually happened, because these were through year end, prior to the evidentiary hearing being completed. And I think, in our late-filed exhibit, that was filed in January as well.

So they're actual costs that would be subject to the review -- the full review and audit of the Public Staff, outside of any specific items that were identified in the Public Staff's explanation of the reporting requirements.

Q. Okay. Moving on to the customers --

COMMISSIONER BROWN-BLAND: Chair Mitchell?

EXAMINATION BY CHAIR MITCHELL:

Q. Just want to follow up with you-all.

So Section H of -- again, this is just making sure we understand exactly what y'all have agreed to and the documentation supporting the agreement.

The -- page 17 of the stipulation, down at the bottom, there's a paragraph H. Maybe it's in the section. Tell me when you get there.

A. I'm there.

Q. Okay. You see that:

"Subsequent review of the rate base items, projects for which there are post in-service charges listed in Aqua exhibit labeled 'Post In-Service Charges'"?

A. Uh-huh.

Q. Okay. What is that Aqua exhibit and where is it located?

A. (David Haddad) (Witness peruses document.)

I'm trying to --

MR. DROOZ: If I can, you might take a look at Aqua Settlement Exhibit 1.

CHAIR MITCHELL: And is that -- where is that? Where does that appear, Mr. Drooz?

MR. DROOZ: That was filed with the settlement testimony of Mr. Gearhart and Haddad.

CHAIR MITCHELL: Okay.

Q. Okay. So it's Exhibit 1 to the settlement testimony of Gearhart and Haddad?

A. Yes.

Q. Okay. So I'm looking at that exhibit now.

A. Uh-huh.

Q. And it's a lengthy spreadsheet and it's -- of various projects and associated information for those projects, and the source comes from W-1, Item 28.

Is that -- am I -- are we all on -- looking at the same document?

A. Yeah. We are.

Q. Okay.

A. Yes.

Q. And is that Item W-1 -- is that File W-1, Item 28, that source data from the March 31, 2023, filing made by the Company?

A. Yes.

Q. Okay.

A. So if I -- go ahead.

Q. Okay. So are certain of the projects identified in this Exhibit 1 the post in-service charges projects?

A. Uh-huh.

Q. And how are we to know which of those projects are post in-service charges?

A. This entire list are the post in-service charges.

Q. Okay.

A. So let me, maybe, clarify a little something based on going through this with the Staff.

When we looked at the September to December '21 [sic] actuals and had discussions back and forth, what you'll notice about this list, all these in-service dates are pre-September 2022 charges.

Because in the -- the way the accounting systems work, you may have a project that has more like -- it goes into service, and then something else gets charged to it.

So we wanted to be clear, working with the Staff, that this group of costs, since they aren't technically September to December, because they have an in-service date pre-September '22, are subject to their audit.

So this -- this is a complete list of in-service projects actually booked on the Company books in '22 that are subject to audit in a future proceeding. It's this entire list.

Q. Okay. And so these are projects for which the in-service date is prior to September 1?

A. Yes.

Q. And is there agreement by the Public Staff that these projects were in service prior to September 1?

A. Yes. I believe so.

Q. Okay. And I'll -- we can confirm that with the Public Staff.

So -- and you-all recall in the -- you may recall in the rate case during the expert witness hearing, there was discussion about the September through December projections?

A. Uh-huh.

Q. And I tried to understand what was going on. I failed. I tried a couple of times and I -- going back and reviewing the transcript, I -- it's very difficult for me to make sense of it.

But I do read in the transcript that there was $18.6 million that had been projected by the Company for September through December, but that you-all knew and understood that 18.6 to be low relative to what you had actually incurred.

A. Correct.

Q. Okay. So I've got -- so I've got at least that one basic point right. Okay.

So the way I understand your testimony today, though, is that this Exhibit 1 to your settlement testimony wouldn't cover the projections that you-all made for September through December; is that correct?

A. It's a subset of that cost.

So, if I may, maybe I can take my shot at explaining, because I think I spoke with you about this --

Q. Okay.

A. -- back in January.

So the -- at the time of the hearing, the Staff had included the 18.6 for September to December '22. Those were estimates in rate year one. So they basically made rate year one a 16-month period, right? September 1, '22 through December 31, '23.

At the time of the hearings, we were closing the books and said, "Well, we know now our actual costs for that period were roughly $46 million" -- or, I'm sorry, "$34 million," because books were being closed, right? And then that number did turn out to be just over 34.

So in negotiating the settlement, the 18.6 comes out. And we took the 34, and working with Staff on an analysis of what truly hit the books for projects that had an in-service date of September to December '22 is -- is $34 million.

This 8.3 is a subset of the 34. It was a delineation made so they would have comfort that they could audit these charges that were pre -- by an in-service date pre-September 2022.

But this is just a subset of the total costs included in rate year one. I mean, if I had a whiteboard, I'd -- granted, it's very confusing.

Q. Okay. So what I -- what ultimately I want to know is --

CHAIR MITCHELL: And I'm gonna ask the Public Staff this, too, so somebody be ready to answer.

Q. The -- you-all have worked through the issue that you presented to us at the expert witness hearing regarding the projections versus actual spend for that period of time, that update or that adjustment period of time in the rate case?

What I heard the Public Staff testify to in the expert witness hearing is they had inadequate time to audit and had not been able to audit at all a portion of that spend.

A. Correct.

Q. What I hear you -- what I hear you testifying to right now is the Public Staff and the Company have resolved these costs, and that the Public Staff is going to have an opportunity in the future to audit costs that had heretofore been unaudited by the Public Staff.

A. That's correct.

Q. And there is agreement among the Public Staff and the Company as to this issue.

A. Yes.

Q. Okay. And can you help me understand if there is agreement between the Public Staff and the Company about avoiding this kind of problem in the future in a future rate case proceeding?

A. Yes. I think what we've learned is, one, the approach to a WSIP would probably be different based on this being the first time through a fully projected three-year period, and that working ahead of time to report in the case what is helpful for auditing post-filing reporting is something that's -- you know, we're not both, kind of, working from more of a -- I don't want to say "silo," but, you know, we had some things we just didn't know at the time with this new structure to the rate case.

So I would say, from the Company's perspective, some work up front to alleviate these types of situations could be done.

A. (Shannon V. Becker) If I may, I would also add that we will not be going through another implementation conversion from loss into SAP, which, quite honestly, this list here, a lot of it is a result of the deferral of our ability to unitize when it was put in place.

So these were -- these costs were placed in service, or have a placed-in-service date earlier than the posttest year of 8/31, but they were not actually put on the books until subsequent to 8/31.

So that's why we wanted to identify these separately -- and, actually, I think the Public Staff specifically requested that we file this -- to identify this grouping of the September through December costs that were put onto the books post August 31st separately, but because they were actually costs that were incurred and adjusted for as part of the conversion, just deferred to a later date.

So the timing was off. So I don't anticipate we'll have this type of issue going forward.

Q. Okay.

A. Or at least to the extent of this. We'll always have projects that are placed in service in one period and then we add costs down the road for whatever reason, but it should not be to this -- it will not be to this extent.

Q. Okay. So, Mr. Becker, thank you for that additional clarification.

So is it -- is it appropriate for me -- or is it correct -- let me use that word -- for me to understand that, although you've referred to September through December costs and projection in your -- in previous testimony during the expert witness hearing, you referred to projections related to the September through December 2022 period -- because of the anomaly with the SAP conversion, those costs were actually incurred and plant placed in service prior to that period of time, but because of the conversion, weren't recorded until September through December?

Is that -- is that --

A. I'll say significantly that was a lot of the reason for this deferral of this bucket of costs, this 8-point-whatever million dollars.

CHAIR MITCHELL: Okay. I'll stop.

Thank you, Commissioner Brown-Bland.

COMMISSIONER BROWN-BLAND: All right.

You've prompted another follow-up.

Commissioner Clodfelter?

EXAMINATION BY COMMISSIONER CLODFELTER:

Q. Well, I think I followed your dialogue with the Chair, but let me -- let me be sure I followed it by asking the question this way:

Does the stipulation preserve the Public Staff's right to audit in the next general rate case

the bucket of $34 million or the subset of $8.3 million? Which?
A. (Shannon V. Becker) Effectively, both.
Q. So it's the entire --
A. $34 million.
Q. -- bucket of $34 million?
A. Yes.
Q. Including the -- which includes the subset of 8.3. Their right to audit and make adjustments -- or seek adjustments, I should say -- we make the adjustments -- seek adjustments in a future rate case applies to the entire bucket of $34 million, which includes the 8.3 that were in service before September 1 plus the projects that were placed in service between September 1 and December 31?
A. Yes. Totalling $34 million.
Q. Thank you. I got it.
A. And just to add clarity, I believe --
Q. Every time -- it's dangerous to do that. Every time you do it, it prompts another question.
A. Well, I think this came up because the posttest year was 8/31.
Q. Yeah.
A. And because these were prior to that, there

was concern that that would not be eligible for auditing in a future case. I think that's why this was brought up.

COMMISSIONER BROWN-BLAND: All right. The name of the game is clarity, so thank you.

EXAMINATION BY COMMISSIONER BROWN-BLAND:

Q. The customer assistance program, that program is not -- is not part of another list that the Company provided of issues that would have an effect on the final revenue requirements and rates.

But Public Staff Witness Darden, on page 31 of her prefiled testimony, she stated that removing that $45,000 from the nonutility revenue impacts the service requirements and increases the rates for all customers.

And she, therefore, says that the funding of the proposed CAP would affect all the ratepayers, and she indicated further analysis was needed to determine what that impact would be.

Based on the testimony to date, it appears the Public Staff believes the repurposing of the $45,000 from the antenna lease revenue to the CAP would impact the rates to customers, but Aqua appears to continue to maintain it would not. And we'd like some clarification on that.

We'd like to know how that CAP activity would be -- would show up on Aqua's books. And if you bear with me, I'll just give you some examples so you see what we're thinking about.

If the Commission approves Aqua's request to repurpose the $45,000 of miscellaneous revenues to the CAP, how would the adjustment to reduce the customer accounts receivables balances be recorded on Aqua's books?

And if the program is approved, the CAP, would the amount of miscellaneous revenues reflected in the total operating revenues for rate case purposes be reduced by $45,000 of that proposed amount of funding for the CAP?

A. (Shannon V. Becker) So the $45,000 would come out of antenna revenues, which are, I think, nonregulated -- considered nonregulatory revenue?

A. (Dean R. Gearhart) Correct.

A. (Shannon V. Becker) And recorded to miscellaneous revenue.

Because all avenues and sources of revenue are considered in our revenue requirement, those do effectively -- even though they're coming from antenna leases, which is separate, that the revenues that did not come from customers, it does reduce the revenue requirement for the customers.

So it effectively would have a -- $45,000 divided by 86,000 customers, there would be a slight impact to the rates for all of the customers.

Q. So Witness Darden is correct?

A. Yes.

Q. All right. All right. And so that would show up in the way that you would fund and administer the program? That would show up on the books, that effect?

A. It would likely be -- and I'd have to work through this. But it would likely be a reclass from that bucket of revenues. And I do not have the draft accounting set up in front of me.

So that amount of money would be utilized to fund those supporting needs, the supporting needs for the CAP Program. I don't have the accounting transactions, though, in front of me. I'd have to prepare those.

Q. But we do have -- the issues around this are agreed upon?

A. Well, the Public Staff's position is they do not agree with the CAP Program and utilization of that money for that purpose, and we still believe that it is a good pilot program to start and see how this will work out.

Q. All right. Now, moving to the capital improvements for the WSIP period. And this was of the joint witness testimony here.

Beginning on page 7, line 12, of the settlement testimony, you discuss the provisions of the settlement agreement related to the -- related to capital for the WSIP. And there was extensive discussion of this issue in the testimony back during the hearing.

Can you walk the Commission through the general resolutions reached by the parties with respect to the capital improvement for the period? And, in particular, let's start with on page 8, lines 4 to 6, of the settlement testimony.

I believe this is in the joint.

A. Is this in the stipulation or my settlement testimony --

Q. I believe it's in the Haddad-Gearhart.

A. (David Haddad) Can you repeat the page reference, please?

Q. Page 8, lines 4 through 6?
A. (Witness peruses document.)
Q. There it states:
"The Company's WSIP capital plan for rate years one through three is represented by the information contained in revised W-1, Item 28" --
A. Yes.
-- "attached to the Aqua settlement Exhibit 2."
And then on -- but then on page 7, lines 18 to 21, you state that:
"The plan and service additions and estimated retirement shall be as summarized in Public Staff Settlement Exhibit 2."
Can you explain in general how the stipulating parties resolved the disputed issues related to the bridge period? Is that what we've --
A. (David Haddad) Sure. So we -- working with the Staff, we first agreed to the base year, '22, as only going through actuals August -- through August 31, 2022.
So once we all got on the same page with that, we began the discussions for rate year one, which

is now the 16-month period that we just discussed, September '22 through December 31, '23.

In that is the original estimates for '23 plus the $34 million fully auditable. But then we also made exclusions for the litigated issues around PFOS, PFOA capital costs and SIP, SAP costs.

So those were all excluded from the entirety of the WSIP period, just set aside, because they're litigated, including the base year. So all four periods, we made sure, working with Staff, to eliminate those capital additions that are being litigated.

And then rate years two and three are essentially what the Company filed because -- again, with those litigated items excluded.

Q. All right. What's the difference between Aqua Settlement Exhibit 2, right, and the Public Staff Settlement Exhibit 2?

A. I didn't look closely at theirs. I would expect there should be no difference. Just give me a second.

(Witness peruses document.)

So the Exhibit 2 presented by Aqua was presented and assembled in the form of W-1, Item 28, so that, when we presented it to the Staff in the negotiations, it was familiar to them in the format that they used to support their case in the hearings.

Q. And you -- and is this what was represented earlier, that the Commission is to use the Public Staff Exhibit 2 instead of Aqua's?

A. I guess I'm a bit confused by their -- what their Exhibit 2 is, because I thought their Exhibit 1 was their entire calculation of -- of their revenue requirement calculations, which incorporated this -- the Company's Exhibit 2.

Q. That included the disputed -- that was their -- that included their version of how the dispute -- if the disputed issues were decided in their favor? Is that what Exhibit 1 is? Versus Exhibit 2, Public Staff Exhibit 2?

A. Yeah, I'm -- let me say it this way. Their Exhibit 1 does include the same capital requirements presented in the Company's Exhibit 2. I'm not familiar with Staff's Exhibit 2.

Q. All right.

A. I'm -- and I'm not finding it here in front of me.

Q. All right. I think the Public Staff will be able to help us out with that.

A. Yeah. So let me talk to -- Exhibit 2 filed by the Company is the comprehensive WSIP plan by period in the form of W-1, Item 28, that was agreed to by both Public Staff and the Company in terms of the capital costs that make up the plan for the period -- for all four periods: base year; rate years one, two, and three.

Q. All right. What's the agreement that's been reached as to the amount and the timing of including the bridge period capital improvements in the WSIP?

A. It was agreed that the bridge period -- which maybe this is semantics -- the base year of the bridge period, year '22, is only through August 31, 2022. That's the actuals plant in service of just over $12 million.

The remaining part of the bridge year, September through December, is in rate year one, making it a 16-month -- 16 months of data.

Q. All right. And except for the three contested issues related to the SIP/SAP project, the Wakefield filter project, and the PFOS treatment projects, has the Public Staff and Aqua resolved all disputes related to the amounts and timings of capital projects included in the WSIP rate years one, two, and three?

A. Yes.

Q. All right.

(Pause.)

COMMISSIONER BROWN-BLAND: All right. Are there questions from other Commissioners?

Commissioner Kemerait?

EXAMINATION BY COMMISSIONER KEMERAIT:

Q. Mr. Becker, just for my own clarification, I just wanted to make sure that I was understanding your response to the question from Commissioner Brown-Bland about the 5 percent cap and whether that 5 percent -- what the Company's position about whether the cap is applied to each rate division or applied to the -- as companywide.

And I looked back through the stipulation and then also the settlement testimony, and I didn't see that it was addressed in the Company's proposed order or settlement testimony. I might have missed it.

But for clarification, can you say whether you're in agreement with the Public Staff that it is by rate division, or whether that's a contested issue and the Company's position is that it should be -- the 5 percent cap should be applied companywide?

A. (Shannon V. Becker) It is not a contested issue. Aqua believes that the 5 percent cap or utilize the 5 percent cap on a rate division level.

Q. Okay. And I did not see that that was specifically addressed in the stipulation. I might have missed it.

But it -- I think that if anyone can point that to me at some point, where it might be in the stipulation, so that we can -- so that we can see that it is, in fact, specifically addressed in the stipulation.

A. And I don't think we did put it in the stipulation because it was an agreed-upon item.

Q. Okay.

A. So it was something that was previously undisputed.

Q. Okay.

A. So we did not address that.

Q. Okay. Thank you for the clarification.

COMMISSIONER BROWN-BLAND: Commissioner McKissick.

EXAMINATION BY COMMISSIONER McKISSICK:

Q. I guess one or two questions. And I guess I am curious about, you know, this Customer Assistance

Program, the way you have it proposed and how you came up with the $45,000 that is allocated. Of course, it's coming from the antenna revenues. But what did you contemplate when that program was established?

I gather, you know, you looked at census track data. I gather you also did some type of analysis -- it wasn't completely clear of what it was -- and you were looking at recipients potentially being those that made 150 percent of the federal poverty level.

So can you provide greater specificity? Because when Public Staff reviewed this, based upon this $500 cap that would have only applied to arrearages, it looked like it would only impact potentially 80 people out of your entire rate base.

A. (Shannon V. Becker) And, Commissioner McKissick, I know it's a good clarifying question that we have an individual who works in our corporate office who focuses on these types of programs for all of our states.

And in this case here, I think what the intent is, although it's a small amount, it's $45,000, it is meant to be an opportunity to look at developing a program and seeing how it works, what do we need to refine, and what are areas of opportunity.

It is a small amount. I do believe, in our rebuttal testimony, we countered the quantity of people that it might help from what the Public Staff had made reference to. But I don't think the intent is to really be a saving solution, other than let's look at new programs to see how we can implement this going forward.

Where the funding comes from, you know, it was a recommendation that it come from antenna revenues. There's lots of different, you know, recommendations of where that can come and how it can be funded. But we wanted to start working on this program, because it's not just a program about our customers. At least we are using -- we recommended the use of a company called Dollar Energy, and they're well used throughout other states.

And when we recommend or make a referral to them, they not only benefit from the funds that we can apply, the $45,000 amount, but they also make recommendations to partner funding programs, whether it's rental assistance or whatever it might be, so they have a network of other philanthropic organizations that they work with.

So when we make that referral, yes, they'll benefit from that $45,000 that we would allocate towards them in this program, but they would also benefit through other -- a network of opportunities for those disadvantaged folks who may need some assistance.

Q. So is it fair to say you were viewing this more as a pilot, almost?

A. Yes.

Q. And how many potential -- how many customers that you have to date? I mean, did anybody extrapolate to see how many that are in arrearage that are falling under your criteria for those that could potentially benefit would be eligible?

A. I do not have that information with me today. I could pull something together that shows the number of individuals.

I don't exactly know the criteria. We would have to try to make some assumptions, I think. But we could potentially pull something together that provides the quantity of eligible candidates.

Q. And to what extent are you open to funding it with something other than the antenna revenues? It sounds like that's something -- I mean, suppose it came from shareholder money instead?

A. So sorry. What --

Q. Suppose it was not being funded, you know, with funds that are coming in through the antenna revenues that, you know, would eventually be reflected in what goes into the rate base? It came from some other source separate and apart?

A. The funding opportunity there was just knowing that that wasn't coming directly from the customers --

Q. Right.

A. -- was why that was recommended. I guess, you know, the funding amount can come from anywhere that we designate.

Q. Okay. I guess wondering to the extent at which you-all were still open to doing something further, notwithstanding the stipulation before us today.

A. Well, we were hoping that the Commission would agree that the $45,000 would be a good amount of seed money to work on this program so we can see what the results and the impact could be and potentially expand it down the road and refine it.

Q. Okay. And I want to switch gears a little bit, in terms of one or two of the other issues that remain unresolved at this time.

And one of them is dealing with a PIM that would be established dealing with the completion of your capital improvements that are anticipated at this time and whether they came within the time frame that was proposed for getting them completed as well as within the estimated budget for the project.

Have you given thought to how that might be successfully done in a way that could satisfy or address any concerns you have relating to the way the Public Staff has viewed it?

A. I have. As you mentioned, we don't actually oppose the tracking of that. I don't necessarily believe that the criteria has been refined enough to be -- to be relevant to providing a relevant impact.

Alternatively, during our settlement discussions, we -- I had thought that possibly -- you know, the issue is the financial impact.

The rates are going to be based on our three-year WSIP plan, and that includes the projects that we have in years one, two, and three. So I thought that having an incentive or a penalty associated with the amount of capital in total that was approved as part of the WSIP would be more relevant.

And that, kind of, goes along the basis of all of these metrics. This is the first case out, right? So we're going to be refining. We're going to see benefits and improvements and find where certain things are more relevant than other things.

And one of the major reasons we did not provide a penalty or an incentive with any of our recommendations was we're in that upfront mode where this is the first time we're doing this.

So we wanted to have that ability to let's put some things out there. Let's see how they work. And then let's go back and see what makes sense to identify a specific target.

Whether it's industry-based, trend-based, or Company-based, let's really see what the impact is going to be. And is the cost of installing that and meeting those markets -- targets -- I'm sorry -- is the cost of meeting specific targets that are set, does that outweigh the benefit that could result and be provided to the customer?

So when it comes to the projects, our rates are based on meeting certain approved capital limits. And if I don't spend -- if my rates include $40 million, and if I don't spend the $40 million, I have a potential to over earn.

Now, the regulation provides the recovery of any amounts that I over earn on. In this case here, we have that zero-basis band, upper band. So whatever the authorized ROE is, you know, anything above that would be returned to the customer.

So the financial impact of not spending -- let's say it's $40 million in an approved year, and I spent $30 million. Well, my rates have $40 million.

So having it a little bit more geared towards the overall amount that was approved in rates, versus whether a $200,000 project happened in Q1 versus Q3 or even -- you know, it didn't make Q4, but it made Q1.

Or let's say I swapped, and I had to move forward four or five projects that were prioritized in 2024 and move them into 2023 because something happened from a compliance perspective.

I'm making -- we are making decisions all the time to move capital, to move projects, to make sure that we're focusing on the prioritized needs of our customers.

And in those cases, some projects that might have been tagged for this year might move to next year. And to be penalized on making those decisions, it --

the incentive -- there's no real benefit to the customer, right? Because then I might be more inclined to do projects that I otherwise need to move.

And from a budgeting perspective, even, on those, if I have to put in performance measures, that's gonna go out to bid with all my contractors, right? So they're gonna up the bid, because now they're taking the risk of meeting a certain date.

And if that's the case, you know, my three-year plan right now doesn't have that increased cost that we would expect from requiring performance measures on our contractors.

So there's a lot of concerns along the performance metrics having penalties, at least the way they're described here.

Q. Okay. So you're looking more at total spend as opposed to discrete projects and how they might move around, and the deadlines for each individual project and the proposed budget for each project, as well as its individual completion date?

A. That would seem to be a more applicable incentive or penalty, because that's what the rates are based on.

You know, we always -- we internally measure how well are we doing. We plan projects, and we usually have to, you know, describe, well, we've got to move this out. We've got to put this in.

Well, we're doing a lot of that. You know, we have thousands of line items of projects, so we're always moving things around based on our priorities.

But, you know, last year, when we did our five-year plan, it's what we were planning on. But those plans change based on alternative priorities that will change -- change your needs.

Q. And I gather there will be quarterly reports prepared and submitted for review for how the --

A. Absolutely, yes.

Q. -- capital projects are doing.

A. Yes.

Q. Okay. Now, let me shift gears once more. I gather the Wakefield costs are still in dispute?

A. They are.

Q. The adjustment for 25 percent?

A. They are.

Q. From what I recall, that project was supposed to have been completed in six months, and it took five and a half years. Are my recollections consistent with what you remember?

A. I know there was a delay. I don't remember how long that delay was. But I knew it was an un- -- a not normal delay.

Q. Okay. Now, I think what's been suggested is an adjustment of 25 percent. What is the basis for you-all believing that that is inappropriate?

A. Kind of in line with the response I just gave. When we were making operational decisions on the run with the information -- or not on the run, but as we proceed through the projects and circumstances change.

In this case, I think we had challenges with the easements, and there was some turnover in the management with the church, some saying they weren't gonna give us the easements, some saying they were.

So we had to navigate and say, "Okay. Well, here's what we have today." And based on the information we know, we made a decision to proceed with what was in the best interest of the customer at that time.

It's easy to look back and say, "Well, we could have done this and we should have done that." But that doesn't always happen at that moment in time.

And I think, you know, one of the benefits of our performance-based metrics and a WSIP program, itself, that had a quarterly reporting of our projects, this is something we would be sharing in our reporting on a quarterly basis, and the Public Staff would have been aware of the progress of that project and could have inquired about it throughout that period of time.

Now, we didn't have it at that time. But that's one of the things that, you know, they would have been hand-in-hand with us throughout that period, seeing exactly what we saw, you know, at least inquiring in a more timely basis, to determine did we -- are we making a prudent decision to move this way versus that way.

So all of the costs that were incurred during that program were -- they were part of our operational requirements. They -- we made decisions at the time based on the information that was known and available.

And those were the costs -- and that was the cost of doing business, and in particular with that specific project. And, unfortunately, it was -- we had to turn right and turn left, and it did increase the costs.

Q. So when it comes to the 25 percent adjustment that's been proposed, I take it from your explanation

you believe it should be zero?
A. I do. It's a cost of business.
Q. All right. And then let me shift gears once again to the recovery cost incurred or planned relating to your capital investment plan relating to PFOS. Okay?
Of course, PFOS standards are not as clear, specific, defined at this point in time as they might be at some point in the future, and I guess you're projecting out to do certain improvements today that you don't know would be required or necessary, based upon standards that might be adopted at a subsequent point in time.
What are your thoughts relating to what's been proposed by Public Staff?
A. So my thoughts are gonna be a little higher level. We do have Amanda Berger, who's my director of compliance, here who can answer additional questions if you so choose if you want to get into more of the specifics on PFAS.
But we set an internal standard of 13 parts per trillion, and that's what we were working towards. What's in our capital plan are only projects that exceed 13 parts per trillion. EPA has proposed 4 parts

per trillion, and that is expected to be finalized by the end of this year.

I think the expectation -- my understanding is the expectation is pretty strong that we're gonna have a metric at 4 parts per trillion or very close to it.

So in regards to what's in the plan, I'm only doing projects that exceed 13 parts per trillion. So I'm gonna have to do those anyway. I feel confident. I mean, unless something falls out of the floor of this and they don't come up with a PFAS standard, I'm pretty confident we'll be doing all of these projects, at a minimum.

When we go to 4, assuming that does happen, the population of projects is gonna be much greater than what's in my plan. So I do not believe that the Public Staff's position of not allowing the recovery of the PFAS projects is appropriate.

We are trying to do the right thing in advance. I don't know what kind of lawsuits could come out of not acting with this level of information.

And it's gonna -- from what I understand right now, it's gonna take about -- we're gonna be given three to five years to install the volume that they're requesting. It could be significant, 200 to 300 potential treatment needs. They'll all have to be investigated.

But doing that, we currently do 10 to 15 projects a year, filter projects. That is going to be five, six times what we're doing today, with all of the other utilities doing it at the exact same time.

So that's not a very large amount of time to actually act. We know what we have to do. We know what we can do, especially with these 13 parts per trillion, and we believe that they should be in the WSIP -- allowed in the WSIP recovery.

Q. And switching gears once again to the conservation pilot program. I gather right now you have two seasons of data or two years of data that's been accumulated. But you feel that's inadequate to make a determination or assessment as to whether it's been working effectively or what impact it may or may not have had.

Why do you feel that, based upon the data you got right now, that it's inadequate? I mean, I would think that, with the data that is available, there could be some, at least, preliminary assessment as to whether it's working, or what impacts it is having is probably a better way of stating it.

A. Right. I do -- first, when we put the application together, we only had the one season and -- because it was filed on June and it was prepared months before that. So we didn't have the second season, which was 2022. We now have that, and I believe we made a filing.

Was it a late-filed exhibit that we showed the --

A. (Dean R. Gearhart) Well, we did a -- we did the filing for the second year, which actually -- I believe it's going to be on the docket on the 17th.

So we presented the '22 information. And in '22 we actually did see a significant decrease in consumption, especially compared to year one.

For -- high level, year one, the impact wasn't really there. The customers actually used more than was in the model, and we actually wound of paying refunds. This year, we're -- in 2022, we saw a significant decrease.

Which makes sense, you know? The first year, people didn't -- maybe they didn't understand the impacts until it actually showed up in their bills. But in the second year, we're seeing a significant --

we saw a significant drop, and actually to the point now where there's a surcharge. So it's the second year has shown that it's actually making a difference in usage habits.

A. (Shannon V. Becker) So using those two periods --

Q. Right.

A. -- and now that we have a second period, I would make the recommendation that we include and keep the conservation pilot at least for a little longer.

One of the arguments is, like, is it seasonality? Is two periods enough, right? Wet season, dry season, there could be some -- there's likely some elasticity related to the seasonality of rainfall --

Q. Right.

A. -- and heat.

So I just don't see the benefit of taking it away without having a viable replacement, just putting them back into the general consolidated rates, when it appears that it might be having a benefit, based on this last reporting. I think it would be beneficial to continue to see what happens.

And, if anything, I think a conservation rate should still exist, but do we tweak the bands? Maybe. But I think a little bit more information should be needed.

And it's good for us. It helps our operations. If it works, it helps our operations by providing additional capacity and reducing the demands on that capacity. So that just -- the benefits seem to outweigh significantly the cost of just removing it.

Q. Okay. And I hear you say they're -- the findings between the first and second year have been significant. Could you add more insight, in terms of that use of the term "significant," what you have actually observed?

A. (Dean R. Gearhart) Unfortunately, I don't have the numbers in front of me. But again, it's sort of like, you know, year one, it didn't really have any impact at all. They actually used more than we figured.

The second year, after experiencing it for a year, we actually saw a notable decrease. I mean, quantifying it, the first year I think we owed about $100,000 in a refund. And then I think this year the number is about 70,000 in surcharge.

So it's -- you're actually starting to see the impact that we were hoping to see from the beginning here in year two.

Now, we're not into irrigation season yet on 2023 yet, but, you know, the last year seemed to be going in the right direction.

And again, this is all part of the filing that I think the indications were that that might -- was going to be on next week's -- or very soon, like possibly next week or the week after, it's gonna be on the Monday morning meeting.

Q. And last question is simply this. And this is about an issue, I guess, you and the Public Staff were able to work out, and that's relating to the audit that's going to be performed.

And I gather from reviewing the information, that the cost that you-all have established, that it will not exceed is $75,000, but it seemed to me like there's a lot of work and data that needs to be accumulated in a pretty quick, short period of time, something like 90 days.

In my mind, that would appear to be a relatively modest fee to pay for consultant time and expense, but how was that $75,000 determined?

I mean, what were the assumptions that were built into that, in terms of -- I know you have to stipulate to a firm, but the expertise, the skill level, the work that's going to go into the accumulation analysis of the data?

A. (Shannon V. Becker) Right. Well, it's something that we felt that we needed to put a limit on it, because the scope needs to be refined. And working with whomever the third party would be who does this audit, we would be working with the Public Staff to set up that scope.

And we were concerned that, you know, it could get very large, right? And we didn't want it to be an open-ended review audit. And there is a lot of things that we would have to include here, but we'll have to determine at what depth.

When I say "we," us, Aqua, with the Public Staff would need to determine the exact scope of what is going to be the outcome in the areas that are reviewed here to accomplish the intended goal of performing this audit to determine what is really needed to incorporate -- or to properly utilize the WSIP, whether it's reporting requirements, staffing. There's a lot that is in here.

But we just did not want to have an

open-ended number, and that was just part of the stipulated agreement, the $75,000.

Q. So let me ask you this question. Suppose you-all sit down with a consultant, review the scope of services and all the data that's gonna need to be accumulated and analyzed, and when discussing things with them, you find out that what you really have is scope in a project that, to get it accomplished in 90 days, you're looking at spending $150,000? What do you do at that point?

A. The stipulation doesn't exactly address that.

But what I would think we would do there is, the scope would be affirmed with the Public Staff and agreed to with the Public Staff. And if it came out that they were gonna estimate $150,000, I would ask the Public Staff to consider putting that into a reg asset for recovery in the next rate case.

Q. Okay.

A. Or any difference.

COMMISSIONER McKISSICK: Thank you. I don't have any further questions.

COMMISSIONER BROWN-BLAND: Commissioner Clodfelter?

EXAMINATION BY COMMISSIONER CLODFELTER:

Q. To follow up on Commissioner McKissick's last question, I will say to you, when I read the stipulation about the proposed scope of the study, I was pleased and impressed.

And then I saw the three months and the $75,000, and my eyebrows went up, and I thought, any consulting firm you're gonna hire that's going to do it in three months -- that scope of work in three months, and it's for $75,000, is gonna be out of business very soon. They're just not gonna be able to make it on that kind of schedule at that kind of price.

So now I hear that maybe the stipulation doesn't really fully define the scope of work, and that leads me to a different discomfort is: When will the Commission know what the actual scope of the management audit's going to be?

A. So I do think the stipulation defines what the intended scope is, but I guess the depth of each of these areas is what's gonna have to be decided and determined. Or, you know, we get a costing and maybe a different estimate of the amount or the time.

So three months, if it's gonna be six months, I guess we can't really change that. But that would be something that we would have to work through.

And if the effectiveness of the work that's going to be done by this third party is at a depth that it will supersede this three-month and the $75,000, I'll have to work with Mr. Ayers and the Public Staff to figure out how we go beyond, or do we scale back on any of those areas.

Q. Well, I appreciate the work with the Public Staff, but part of the -- part of the attractiveness of the stipulation to this one Commissioner is that it helped me get over the hump on some of the issues that were contested about, the SIP project and the SAP project, however you describe it -- they're part and parcel of the same thing. And seeing what you agreed to in the stipulation helped me resolve my discomfort about those issues.

A. Sure.

Q. So I need to know not only that you're talking to the Public Staff, but I need to know -- well, I think the Commission needs to know what you finally agreed to about the actual scope of the study, the actual cost of the study, and the actual timetable of the study.

When is the check-in gonna occur with the Commission?

A. Once we get the order that the stipulation is approved, we would then work immediately with finding a vendor who would be able to be -- an approved -- a mutually agreeable approved vendor to perform this work.

And once we had that scope, and whether we do a bid process or the final version of that, I would have no problem sharing that with the Commission to say, "Here's what the scope and then the potential price would be," if it's different than this. Or even if it's not different than this.

Q. You wouldn't have any problem doing a check-in before you sign on the dotted line with the consultant contract?

A. I would not have a problem with that, no.

COMMISSIONER CLODFELTER: Okay. Thank you.

COMMISSIONER BROWN-BLAND: All right. Questions on the Commission's questions?

MS. JOST: I do have one.

EXAMINATION BY MS. JOST:

Q. So I believe it was Mr. Becker who was asked a question about the issue with the update and whether -- you know, what contributed to that.

I think there was -- you indicated that part was due to the conversion to SAP, but I think there -- would you agree there was another part that was just simply due to updates that occurred beyond -- beyond or after August 31, 2022?

A. (Shannon V. Becker) I'm assuming you're referring to the capital activity from --

Q. Yes.

A. -- September through December?

Q. Yes.

A. Yes. I think I said "substantially," and that might have been an overstatement. I don't know the exact amounts that were attributable to what was deferred as a result of the SAP project, but there were other reasons as well, yes.

Q. Okay. Thank you.

And so I just want to clarify that that was not part of the settlement discussions, correct? Like, what would happen in the next rate case, in terms of updating beyond the update cutoffs established by the Commission's scheduling order?

A. I'm sorry. Can you repeat that?

Q. So you were asked whether there was an agreement between parties about what would happen next time.

And am I correct that there was no discussion, during settlement discussions, about what would happen in the next rate case, in terms of updating beyond that update cutoff that the Commission establishes in its scheduling order?

A. Right. So there were no specific discussions of how we would cure that issue that happened --

Q. Okay.

A. -- this time, yes.

MS. JOST: Those are all my questions. One of my colleagues may have questions.

MS. CULPEPPER: I have another question.

EXAMINATION BY MS. CULPEPPER:

Q. Mr. Becker, you had said you may need to file for a deferral request if -- you know, hypothetical about the conservation pilot program, in response to Commission questions, if it went over a certain dollar?

A. May need to file -- I'm sorry. May need to file a deferral request?

Q. So if you -- if you want to request a deferral, you would file an application or a petition requesting a deferral?

A. To extend the conservation pilot? Is that what you're referring to?

Q. For the dollars of it, I believe. I believe that's what you had testified to.

A. I'm sorry. Are we talking about the conservation pilot or the audit?

Q. Yes.

A. Which?

Q. Conservation. Sorry.

A. Okay. I apologize. Can you refresh my memory as to what I said we were deferring? I'm sorry.

MS. CULPEPPER: Possibly one of my colleagues can.

EXAMINATION BY MR. FREEMAN:

Q. I apologize. I'm going from memory here. But did I hear you say, about 10 minutes ago, that if -- in the context of the conservation, that you were talking about a 100-and-something-thousand-dollar amount of funds, and I've forgotten what you said, that you would like to discuss putting into a regulatory asset?

A. (Shannon V. Becker) I think that was with the audit discussion --

Q. Okay.

A. -- with the $75,000. And if we exceeded the

$75,000 -- so if we agreed with -- before signing on the dotted line, if we agreed with the Public Staff on the scope and then the cost with our third-party vendor to do this audit that it was going to be $150,000, I believe was the number --

Q. Yes.

A. -- that is the amount.

So over the 75, I would request that -- that any incremental amount be incorporated into a regulatory asset and deferred for recovery in a future rate case. That's what I was intending.

Q. And if you did that, you'd file a separate request, and that request has not been made yet to date?

A. No. We do not know what the cost of this will be.

Q. But if you did, you'd file a separate request?

A. Requesting a regulatory asset?

Q. Yes.

A. Yes. With, hopefully, the support of the Public Staff, yes.

Q. Okay. That's not part of the stipulation? That's just discussion we're having in response to

Commissioner questions?

A. That went beyond -- I do not believe there was any discussion as to the what-ifs if it went beyond.

We came up with an amount we needed to, kind of, cap, because the scope was getting big of the items, and we wanted to make sure that we had some level of cap, because this is shareholder money that would be contributed.

MR. FREEMAN: Commissioners, if we could have one or two minutes to consult? I think we're at near the end of our questions. Just -- or, actually, just 10 seconds.

COMMISSIONER BROWN-BLAND: All right. Commissioner Duffley is going to ask a question in the meantime, if you can.

EXAMINATION BY COMMISSIONER DUFFLEY:

Q. So I apologize. Ms. Jost asked a question, so I wanted to seek clarification, and it's regarding the capital spend between September and December of '22.

So I want to just confirm. Roughly $34 million is that capital spend between --

A. (Shannon V. Becker) Yes.

Q. -- September and December of 2022?

There is $8.7 million that's the audit piece of that. Public Staff can audit that piece. And that looks like it might be Public Staff Exhibit 2.

What I heard you testify to is that, in the next rate case, the Public Staff -- wait, let me back up.

And that this $34 million is going to go into rates in rate year one. It's going to become part of rates?

A. That's what was stipulated, yes.

Q. And so but that I heard you testify, if you can confirm this, that the Public Staff is going to be able to audit the full $34 million in the next rate case?

A. Yes.

Q. Okay. And -- but that was not part of the discussions with Public Staff? The settlement discussions?

A. That's an overall summary of what we agreed to, because it was broken down into several different parts.

Q. Okay.

A. Because there was actual spend through

December, those were the numbers that were used.

Q. Okay. Thank you.

A. Okay.

Q. So do I take it that, in the proposed orders of both the Company and the Public Staff, there's not sufficient language regarding the issue of retroactive ratemaking that may need to be added to the orders?

A. That, I don't think it's -- I don't recall it being in there as well, so maybe that does need to be added.

What I wanted -- out of the $8 million of the &34 million that's the pre in-service -- I'm sorry. The complement, the $26 million that's not pre in-service to 8/31, that would be subject to the WSIP auditability of any of the future rate years.

What we did was -- I think it was because there was that concern of it having an in-service date showing before August 31st. That might have been the concern.

So that's why we kind of specifically identified that and incorporated that also into rate year one, which would technically make it subject to the normal review. That would not be rate -- that would not be retroactive ratemaking.

Q. Okay.
A. But there may be a need for that type of language. All right?
Q. Okay.
A. To qualify it.
Q. Thank you for that clarification. I appreciate it.
COMMISSIONER BROWN-BLAND: Is there a follow-up from the Public Staff on that question?
MS. JOST: No.
COMMISSIONER BROWN-BLAND: All right. Questions on Commission's questions?
CHAIR MITCHELL: May I follow up Duffley, just so I'm --
COMMISSIONER BROWN-BLAND: Chair Mitchell.
CHAIR MITCHELL: I'll be very quick.
EXAMINATION BY CHAIR MITCHELL:
Q. Okay. I just want to make sure I understand what each of the exhibits shows, because I have now heard -- Public -- the exhibits filed with the settlement documents -- and I'll ask the Public Staff to confirm this, too, when they're up.
But so walk me through what Aqua Exhibit 1

shows. And that's Aqua Settlement Exhibit 1.

A. (David Haddad) (Witness peruses document.)

Exhibit 1 is the projects placed in service in 2022 that had costs associated with them prior to August 31st.

And in -- I remember, in talking with Staff, we agreed to segregate this and put language around it about the audit, because it was in the January to August period that's the base year, but not part of what is reflected in the actual base year cost. So it's a -- the $34 million is auditable.

This is a subset of the 34, this 8.3 on Exhibit 1. And it was simply identified because it had these in-service dates that put it in the January to August time frame.

So to just -- to be really clear, amongst ourselves as we talked about it, we did this exhibit to just delineate this as a -- it's unique to the September to December time frame, because of the in-service dates, but it's part of the 34 that is auditable by the Staff and the Commission going forward, and it's just simply set out as a subset on Exhibit 1.

Q. Okay. That's very helpful.

A. Okay.
Q. So I'm not gonna ask you to go any farther, because I think I have -- I --
A. Great.
Q. -- follow you so far.
But it's identified as post in-service charges. Why that terminology?
A. In-service -- post in-service would be after September 1, 2022.
Q. Okay.
A. The --
Q. Okay.
A. Yeah.
Q. Okay. And then help me understand what Exhibit 2 to your testimony is. It's the -- also referred to as Aqua Settlement Exhibit 2.
A. Yeah. So Aqua Settlement Exhibit 2 is the entirety of the base year, rate years one, two, and three. It has a cover sheet that's a reconciliation, but the detail is the W-1, Item 28, list of projects for all four -- excuse me -- all three periods, rate years one through three, because we had agreed with what was presented in the hearing for base year. It's just the detailed records of what support the claim for

the settlement regarding capital additions.

Q. Okay. Perfect. Thank you.

COMMISSIONER BROWN-BLAND: Any follow-up from Public Staff?

MS. JOST: None. Thank you.

COMMISSIONER BROWN-BLAND: All right. Questions on Commission's questions?

EXAMINATION BY MR. DROOZ:

Q. Early on there was a question about the post in-service charges that could be reviewed for prudence in the next rate case, and then there was a parallel question, as I understood it, about reporting requirements on that.

I'd like to ask you to turn in the stipulation to pages 16 and 17, and let me know when you're there.

A. (Shannon V. Becker) We're here.

Q. Okay. And looking at Item G, Reporting Requirements, Number 2, does that provide for Aqua to submit, in its quarterly reporting filing under the WSIP, information about fourth quarter 2022, the dollar amount of the plant, the original in-service date, the manually inserted in-service date, and so on? Do you see that in there?

A. (David Haddad) Yeah. Just reading it.
(Witness peruses document.)
I believe so.
Q. Okay. And I don't know the answer to this, but I'm gonna ask. Is that reporting requirement applicable to the base year charges generally, and, in particular, the post in-service charges?
A. Yes.
Q. Okay.
A. I would note that what's in those post in-service charges has already been booked, so we expect what we have is what we'll report on at this point.
Q. That'll make it a little easier, right?
A. Yes. It should be --
Q. Yeah. Thank you.
A. -- obvious.
Q. You were asked a question about performance incentive measures related to cost and completion of capital improvements.
Let's say an unforeseen pandemic or geopolitical disruption occurs, and all of a sudden there's supply chain problems. Your contractors, through no fault of their own, are insisting that

schedules are delayed and your costs are going up.
If you're under a performance incentive measure that penalizes you for missing budget or schedule, what kind of position does that put the Company in?
A. (Shannon V. Becker) Oh. It's a very bad position, especially if there's penalties associated with it and it's outside of our operational control.
You know, we do the best that we can to be able to manage those coming in on time and on budget. That would, obviously, be a circumstance where we could not control, but we would be penalized anyway.
Q. The -- there were some questions about the Wakefield project that went way over schedule.
Did Aqua make the best decisions based on the information it had at the time?
A. Yes.
Q. Okay. PFAS, the 13-parts-per-trillion capital projects planned and requested by the Company in this case, is it your intent to address the wells with the greatest risk of health issues first and up front?
A. Exactly. And that's why those with the exceeding 13 parts per trillion were selected and

included in this plan.
Q. Thank you.
You were asked a lot of questions about the $75,000 cost cap on the audit and the three months schedule.
Was Aqua's original position that no management audit was needed or justified?
A. I believe so, yes.
Q. And the Public Staff recommended a management audit with no cost cap; is that correct?
A. It was -- it was silent to a cost cap, yes.
Q. Okay. And from what you know, does a settlement represent a reasonable compromise between the positions of the parties?
A. The entire settlement does.
Q. And with regard to the management audit piece?
A. We made accommodations to be able to address the issues that were of concern with reasonable description as to what the scope should be, yes.
MR. DROOZ: Okay. Thank you. That's all my questions.
COMMISSIONER BROWN-BLAND: All right. Do we have any follow-up motions?

MR. DROOZ: We would move the exhibits into evidence as marked. And we also would -- again, I don't know if you want to wait until the Public Staff testifies, but we would like to move the stipulation into evidence as well.

COMMISSIONER BROWN-BLAND: All right. Is there any objection to a motion into moving in the stipulation now?

MS. CULPEPPER: No objection.

COMMISSIONER BROWN-BLAND: All right. Then that motion will be allowed and we'll -- the stipulation will be received into evidence now as well as the testimony and the exhibits filed with it.

(Partial Settlement Agreement and Stipulation and Aqua Settlement Exhibits 1 and 2 were admitted into evidence.)

COMMISSIONER BROWN-BLAND: All right. Gentlemen, you may be excused.

ALL: Thank you.

COMMISSIONER BROWN-BLAND: For real this time.

All right. Public Staff?

MS. CULPEPPER: Public Staff calls

Lynn Feasel and Charles Junis.

COMMISSIONER BROWN-BLAND: All right.

Left hands on the Bible and raise your right.

Whereupon,

LYNN FEASEL AND CHARLES JUNIS,

having first been duly sworn, were examined

and testified as follows:

COMMISSIONER BROWN-BLAND: All right.

DIRECT EXAMINATION BY MS. CULPEPPER:

Q. Ms. Feasel, please state your name, business address, and present position for the record.

A. (Lynn Feasel) My name is Lynn Feasel. Business address is 430 North Salisbury Street, Raleigh, North Carolina. The title is financial manager of the water, sewer, telephone section of the accounting division.

Q. Mr. Junis, please state your name, business address, and present position.

A. (Charles Junis) Charles Junis. 4030 [sic] North Salisbury Street, Raleigh, North Carolina. Director of the water, sewer, and telephone division.

Q. Ms. Feasel, on March 31, 2023, did the panel prepare and cause to be filed in this docket joint testimony supporting the partial settlement agreement and stipulation consisting of four pages and two exhibits?

A. (Lynn Feasel) Yes.

Q. Do you have any corrections to your testimony?

A. No.

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

A. Yes.

MS. CULPEPPER: I move that the joint testimony consisting of four pages be copied into the record as if given orally from the stand.

COMMISSIONER BROWN-BLAND: That motion is allowed and the testimony is received.

(Whereupon, the prefiled joint testimony supporting partial settlement agreement and stipulation of Lynn Feasel and Charles M. Junis was copied into the record as if given orally from the stand.)

Q. What is the purpose of your testimony in support of the Partial Settlement Agreement and Stipulation in this proceeding?

A. The purpose of our testimony is to support the Partial Settlement Agreement and Stipulation (Stipulation) filed on March 31, 2023, between Aqua North Carolina, LLC (Aqua or the Company) and the Public Staff (collectively, the Stipulating Parties) regarding certain issues related to the Company's pending application for a general rate increase and Water and Sewer Investment Plan (WSIP).

Q. Please briefly describe the Stipulation.

A. The Stipulation sets forth agreement between the Stipulating Parties regarding all operations and maintenance expenses for the Base Year and WSIP Rate Years, many base and WSIP Rate Year rate base items, capital structure and cost of debt, and certain Performance Based Metrics (PBMs). The revenue requirement impact for both settled items and unsettled items are reflected in Public Staff Settlement Exhibit 1.

In addition to the settled issues having a revenue requirement impact in the present case, the Stipulation also settles non-revenue requirement issues involving audit and reporting obligations.

The details of the agreements in these areas are set forth in the Stipulation.

Q. What benefits does the Stipulation provide for ratepayers?

A. From the perspective of the Public Staff, the most important benefit provided by the Stipulation is the significant reduction in the Company's proposed revenue increase in this proceeding for both the Base Year and Rate Years 1, 2, and 3. Additionally, a set of performance-based metrics has also been agreed to by the Stipulating Parties providing customer protections to ratepayers.

Based on the ratepayer benefit, as well as the other provisions of the Stipulation, the Public Staff believes the Stipulation is in the public interest and should be approved.

Q. Are there any areas about which the Stipulating Parties did not reach agreement?

A. Yes. The Stipulating Parties did not reach agreement regarding return on equity (ROE), PFOS/PFOA, SIP/SAP, Wakefield iron and manganese filtration project, customer assistance program, and certain other PBMs and related incentives and penalties. The Public Staff fully supports its filed positions on these particular issues.

Q. Did the Public Staff prepare exhibits supporting its calculations of revenue requirement for the base and WSIP Rate Years as well as for the plant additions for the WSIP Rate Years based on the Stipulation?

A. Yes. Public Staff Settlement Exhibit 1 presents the Public Staff's calculation of revenue requirements for the base and WSIP Rate Years based on the Stipulation and our recommendations regarding ROE and exclusion of certain plant additions related to PFOS/PFOA, SIP/SAP, and the Wakefield iron and manganese filtration project. Public Staff Settlement Exhibit 2 presents the estimated plant additions the Stipulating Parties have agreed to for the WSIP Rate Years. We note that it is not until the Commission makes a determination regarding the yet unresolved issues that the settled accounting and ratemaking adjustments can be finalized, and the resulting rate base, net operating income, return, and rate increase can be calculated and just and reasonable rates can be designed.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

MS. CULPEPPER: I also move that the Public Staff Settlement Exhibits 1 and 2 be identified as marked when filed and entered into evidence.

COMMISSIONER BROWN-BLAND: And that motion also is granted.

(Public Staff Settlement Exhibits 1 and 2 were identified as they were marked when prefiled.)

MS. CULPEPPER: The witnesses are available for Commission questions.

COMMISSIONER BROWN-BLAND: All right. Mr. Junis is getting hydrated there.

EXAMINATION BY COMMISSIONER BROWN-BLAND:

Q. Mr. Junis, going back to the bridge year capital projects, the first question I started out with Mr. Becker, Mr. Drooz just asked the panel about stipulation page 17, Number 2, as covering this reporting requirement related to the bridge year capital projects.

Can you take a look at that and see if you are in agreement?

A. (Charles Junis) Are you talking about G-2 on page 16 and carrying over onto page 17?

Q. Yes. And up at the top of page 17, where it talks about the fourth quarter 2022 and then moves over into total dollar amount on the plant, the original in-service date recorded, et cetera.

A. Yes, ma'am. So that is a recording requirement. We also have the ability to do discovery. And so we will -- and have reserved the right to audit all of these costs.

The -- basically September '22 through December of '25, this entire plan, including the bridge period, is subject to audit. And the post in-service charges, which is this additional $8 million and then some IT blankets, any project associated with those costs are also subject to further audit and reasonableness and prudency determination in the next rate case.

Q. All right. And you would identify that same language as the place for us to look that would incorporate this -- this reporting requirement?

A. Yes, ma'am.

Q. All right. And as to the reporting requirement, what's the Public Staff's version of the reasons for the requirement and what information will be received, or the Public Staff looking to receive?

A. So I think, generally, this information is gonna be fairly high-level summary, and then we would have the ability to do additional discovery to really drill down into the information that we talked about, I guess at the start of this hearing, when we were previously here, of you get into actual planning documents, estimates, costs incurred, invoices, kind of the whole supporting set of documents for each project.

So again, this is fairly high-level summary information that would be reported on and then would prompt our further review.

Q. All right. And with regard to the matters that remain contested, such as the PFAS, the CAP -- the assistance -- Customer Assistance Program, those items, has the Public Staff's testimony or position on that changed since we heard it last time? Do you have anything additional based on what you heard already --

A. So --

Q. -- that you need to add or --

A. I appreciate the open floor here, and I will --

Q. It's a small open floor.

A. All right. You cracked the window. I will behave myself as best I can. I am also hungry for lunch, so I understand.

PFAS, PFOA, obviously, there was a huge development there, in terms of the issuance of a draft rule. Now, that still has to go through a considerable comments period, possible legal challenges. We don't know what is gonna be the final outcome there.

But as it currently stands, you have a standard that is lower than what the Company is operating from, than the Company initiative of 13 parts per trillion. Now you're looking at 4 parts per trillion.

That speaks to Ms. Berger's testimony of the scope of this issue. You go from likely 30 entry points to now 300 or more because you now have also the index impacting PFNAs, GenX.

And so it becomes even more uncertain of how wide this problem is and, now, how do you develop a holistic plan to address it.

Are you looking at instead of -- the Company was proposing source filtration. Then, in rebuttal, they said, "Well, we're doing filtration, but there's also these other options of we could take entry points offline, we could look at purchased water."

But it was vague, and to the point of it was not reasonably known as required by the Commission, by the statute.

The statute says "reasonably known and measurable capital investments." That has -- that is not reasonably known once you've now changed the criteria that you're looking to create that plan. So there is no holistic plan.

So to speak to Mr. Becker's testimony today, he's basically looking at it as a budget. Well, you know, $7.8 million isn't gonna fix the problem. But what is that $7.8 million gonna be spent on? It seems unclear now with this change of criteria.

Q.   And the Public Staff did not engage in discussions of what was, if anything is, known at this time, if there's any benefit to any actions to clean that up?

A.   So I think the Company --

Q.   Ways to reduce it, keep it under control?

A.   I mean, Mr. Houser went through and I went through a scenario of Brookwood, for example, of there are alternatives to point source filtration.

So quick answer is our position has not changed. I think now it's actually been confirmed that that level of unknown is even wider and the impact is significant.

But we have to see how the rule plays out, and then the rule will allow a period of time to come into compliance.

Q. So the Public Staff stands by its past testimony and believes that sufficient for this Commission to consider to weigh against anything that we heard today or back then to decide the issue?

A. Right. And I think our proposed order accurately captures what we believe to be an appropriate outcome.

You had brought up Neuse Colony. Is that one of the things you're referring to?

Q. Well, it's necessarily -- yes. Yes.

A. Okay. I just have my list of things that -- you warned me --

Q. Yes.

A. -- to pay attention. I paid attention, and I have a list that I'm supposed to get through here. And I'll try to keep that as fast as possible and maybe prevent some extra questions.

So Neuse Colony, we were previewing our potential disagreement with that project, because it will really boil down to a reasonableness and prudency adjustment once there is determined costs.

And part of the problem with that analysis is there is both a capacity fee that would be known if you were gonna buy capacity today. There is also a portion of essentially the collection, and really more the transport system of pumping that waste to Johnston County. That requires upgrades that were not quantified as part of our discovery, and so it was an unknown.

So there's gonna be some cost. We don't necessarily agree with expansion of the Neuse Colony plant, but I couldn't give you a viable alternative. And so, yes, those costs are in the plan, but recognize that we are previewing arguments for the future case on that issue.

Q. So for purposes of this decision, this case in front of us and the stipulation, there is no longer a contested issue?

A. Again, we were not disallowing the cost as part of the plan but previewing arguments that we -- we have concerns here. Because what we didn't want to get into an issue of, well, you never told us you were -- you had issues with this plan, the costs get incurred, and then we are faced with the very high standard of prudency.

And so we said, "We have concerns. You need to be thinking about the alternatives. We think buying capacity is a viable alternative. We have spoken with Johnston County. They say they have plenty of capacity to sell you." It's really a matter of how do you get that waste to them, and that has not been determined.

So we are literally just putting that concern out there so no one can say, when we're four years down the road and the costs are potentially incurred and they went down that path, "Well, you never said."

I'm saying today, I said in my testimony before, you are hearing it loud and clear: We have concerns with the plan for Johnston County and Neuse Colony.

Q. And I asked them also about the meter project. Is that clear that you --

A. Yes, ma'am. So there is a distinction between the replacement of meters and then costs that are tied to new meters and new services.

Mr. Becker did accurately address that, that those costs have been removed from the plan, or you could approach it as it's offset by CIAC.

That was our concern, that new meters and new customers, they pay a meter install fee or they pay a connection fee that would offset that cost, and you shouldn't only put in the cost and not have that offset. So we have functionally removed those from the plan.

So we are in agreement there, but there is that separate bucket of meter replacements that are included.

Q. All right. And is there -- I'm not being as precise here but trying to keep this short if I can.

With regard to the capital projects and the bridge -- the bridge year and all that discussion about the 16 months and what's in the documents and where it can be found, did you take issue with anything you heard this morning? Do you feel that you need to add anything to that?

And in doing that, be sure not to unravel the understanding that Chair Mitchell has --

A. Yes. I understand folks --

Q. -- now had.

A. -- went through this multiple times. I just want to provide clarity on the Public Staff's Exhibit 2, because that was my responsibility.

That -- that fuels Lynn's Exhibit 1 with the revenue requirement, so this is where those capital costs flow in. This is a summary of plan additions from those plants. Pages 1 and 2 are from the Item 28. These are the projected costs. And I shouldn't have put air quotes because that's really hard to capture in the record.

It is projected in the sense that we are past the point of when these -- some of these costs were planned, but for purposes of ratemaking, these are still considered projected and subject to audit in the next rate case. So that is September of 2022 through December of 2025.

Now, on that third page is where I think maybe there's some confusion. This is where we separated out --

Q. The third page of?

A. Third page of Public Staff Settlement Exhibit 2.

Q. All right.

A. This is where we delineate to show these are those IT blankets and the post in-service charges. Post in-service charges are because these costs were unitized after the in-service date and after this information was provided to the Public Staff and to the

Commission.

You will recall I was very frustrated last hearing because there was this constant changing of what happened in the past. This is an example of that.

These are those unitizations. This was the last rate case issue. We said, "The books have to be closed in a short period of time if you're going to then get cost recovery of these projects if it's through a WSIC or if it's now through a WSIP."

This is really evidence to Clodfelter's concern and our continued on the contested issue of SIP, SAP. This is one of the byproducts of that.

You have costs that are coming in late, so I couldn't necessarily truly complete an audit of projects tied to these costs because I didn't have the full costs. That's crazy. Nor was I told that I didn't have the full costs.

So that's what page 3 is, is we're trying to set aside that bucket, and it's a summary of what Mr. Gearhart and Mr. Haddad present in their schedules. And that's where you have the references in the stipulation to the different documents.

Q. All right. Thank you.

COMMISSIONER BROWN-BLAND: Chair

Mitchell, do you want to follow up on this? We did not destroy your understanding?

THE WITNESS: I did something right today.

Q. All right. Mr. Junis, on -- with regard to Public Staff Settlement Exhibit 1 -- do you have that?

A. The real boss over here has that one. I did not print some copies of that.

Q. That's all right.

Ms. Feasel, this is probably for you anyway.

On line 54, schedule --

A. (Lynn Feasel) So are you talking about --

Q. Schedule rate year one?

A. (Witness peruses document.)

Okay. Okay.

Q. It's described as plant without removing SIP, SAP, PFAS. Can you describe what that line item represents to the --

A. Yes.

Q. -- what disputed plant items those are --

A. So, yes. First of all, there is a typo on that line. It should be "plant without removing SAP, SIP, PFAS." So there's a typo there.

So everything on this page on this schedule shows the revenue requirement impact for the Public Staff adjustments for either settled items or unsettled items. So on line 54, that means the revenue requirement impact for the adjustment to plant in service. But this adjustment do not include adjustment for SAP, SIP and PFAS.

I list SIP, SAP revenue requirement impact in the next two lines, line 55 and line 56, for presentation purpose to show those two are exact contested items.

Q. They're the exact what items? I'm sorry.

A. Contested items.

Q. All right. So can you tell us what the -- what the disputed plant items -- what disputed plant items the revenue requirement reduction relates to?

A. So line 54 is the adjustment for plant in service, mostly related to posttest year additions.

And then after that, there is an adjustment to SAP, SIP that is shown on line 55. Public Staff position is to remove SAP, SIP. Company's position is not to. So that is the contested items.

On line 55, it shows, if we remove SAP, SIP as Public Staff recommended, then the revenue requirement impact will be 217,000 for Aqua Water. And the same idea for line 56. That will be the revenue requirement impact for the adjustment made to remove PFOS, PFOA.

Q. So with regard to line 54, is that -- is that disputed, or is there agreement?

A. That's actually agreed upon, because that's related to the posttest year additions.

But I moved this under the unsettled items because of adjustment to plant in service include PFAS, PFOA, and SAP, SIP. That's part of adjustment to plant in service. But I move it here to show -- to show the adjustment to plant in service related to SAP, SIP and PFOA, PFAS.

Q. So there's no other dispute?

A. Correct. The only contested items are SAP, SIP and PFOA, PFAS, line 54 -- I'm sorry -- line 55 and line 56.

MR. DROOZ: Could we get a reference to the schedule number? We're struggling --

THE WITNESS: Yes. That --

MR. DROOZ: -- to find where we are here.

THE WITNESS: Schedule R-Y(1).

MR. DROOZ: Thank you.

A. (Charles Junis) And I would just add, there's an adjustment there on plant, because she's reconciling between the Company's application and the Public Staff's position.

So there are projects that didn't get done or it changed, and so that is why there's a plant reduction there. And that has been, to her point, recognized and agreed to by the Company.

Q. All right. Thank you.

Now, question to you about that 5 percent statutory cap. Can you explain the Public Staff application of that cap to serve as revenues versus total operator revenues?

A. Yes. So we are applying that to service revenues, and I think all parties are in agreement there on that it applies to year two and year three. And that is captured in Lynn's schedules.

A. (Lynn Feasel) Yes. So we apply to service revenue, and because we believe the rate is calculated based upon the service revenue. Also, historically, the miscellaneous revenues and the uncollectibles are really immaterial, so we would just apply to service revenue.

Q. And in doing that, in selecting the service revenue only, do you consider that to comply with the statute, the WSIP statute? Did you get that --

A. That's our understanding of the statute.

Q. Okay. Why would it not apply to total operating revenue? Do you have a reason?

A. (Charles Junis) I would say that's -- go ahead.

A. (Lynn Feasel) Okay. I would just mostly it's because the miscellaneous is really immaterial, so it does not really impact that much, and also because the rate is calculated by the service revenue. So we think it's more applicable to apply the cap to the service revenue, because that impacts their calculation of the rate.

Q. All right. Now, just so we understand your use of the terms, on Public Staff Settlement Exhibit 1, Schedule BY, for base year, lines 58 to 61, the unsettled items, there's not a line item adjustment for PFOS revenue requirement impact.

In the stipulation, it's stated that the recovery of cost incurred or planned to be incurred as part of the capital investment plan for treatment of PFOS.

The use of the words "cost incurred," is that being used to indicate that Aqua has already incurred some capital costs?

A. Yeah. Okay. Yeah. Because my understanding is that PFOA, PFOS, incur- -- the actual cost incurred is through September through December of 2022, so that is part of the rate year one. So because it's after the cutoff date, August 31, 2022, which belongs to base year, that's why we made adjustment in rate year one instead of base year.

A. (Charles Junis) Correct. So basically the one PFOS, PFOA project that they have done fell in the bridge period, and so it's being -- it is part of the projection and part of the plan. And so that's why it's not in the base year schedule. It's captured in year one.

Q. All right. And still put you in the cross fires, Mr. Junis or Ms. Feasel. But is there anything else from the questions asked earlier or from the responses that you heard from Aqua that you wish to make a comment on?

A. Couple of things here. So there was a comment on the conservation pilot mechanism and when that would be addressed.

Number one, that data was provided after the cutoff, and also there's been no analysis of, like, weather normalization, to Mr. Becker's point. And so to attribute it only to rate design I think is a bit naive.

And so, again, we are against the continuation of the pilot. I think it overcomplicates what is already going to be a very challenging process with the reporting requirements and the annual review. And then you start talking about either giving back or charging customers more money, it gets very messy.

It's making -- it's cost concerns, and you've seen our filing even on just the WSIC/SSIC and the EMF. So the less moving parts we can have, it's really the better for the implementation of the WSIP.

The other item --

Q. You still stand by the earlier testimony?

A. Yes, ma'am.

Q. Okay.

A. The other item I think was the Customer Assistance Program. Again, the Public Staff position is that that was not properly developed.

We provided a direct example of the program that they agreed to in Pennsylvania. There's no skin in the game or contribution from Aqua shareholders like they did in Pennsylvania. And again, there was no consideration of the amount, the $45,000, and what sort of benefit that would provide to customers.

I think efforts would be much better suited supporting and trying to make permanent LIHWAP, like LIHEAP, for the electrics. They're already lobbying to try to get access to SRF funds. So why not tie that also to something like an assistance program that would be federally funded?

Let me see.

Did you have anything to add, Lynn? I think I've hit my list, but I want to double-check.

A. (Lynn Feasel) I do not have anything so far.
Q. All right. He's still checking.
A. (Charles Junis) I'm sure somebody will ask me a question if I missed it.
Q. Commissioner Duffley stepped up.
A. Can't wait.

EXAMINATION BY COMMISSIONER DUFFLEY:

Q. So thank you for your testimony here today. I think it clarified the piece I was struggling with.

So this bridge period, the $34 million, even though we've heard some of it was pre the September 1st date, everyone is considering that projected cost, and so it will go into rate year one. So there should not be an issue with retroactive -- retroactivity; is that accurate?

A. (Charles Junis) So the only concern with retroactivity is, because those post in-service charges are tied to projects that are included in pre-September 1 or the August 31 cutoff, there would be some risk there that, you know, if there's a reasonableness and prudency adjustment that ties to these costs continuing to roll in, you may be tapping into costs that were approved in that base year. So I think your concern is valid.

COMMISSIONER DUFFLEY: Okay. Thank you for that.

COMMISSIONER BROWN-BLAND: All right. Are there questions on the Commission's questions?

MR. DROOZ: I have one question and a procedural request. The question relates to this last back-and-forth on retroactivity.

EXAMINATION BY MR. DROOZ:

Q. If this panel knows, is it possible for the Commission to approve adjustments in a settlement that it otherwise could not do under §62-133 or the WSIP statute?

A. (Charles Junis) I'm not gonna step into that. I think it's better suited to be addressed by attorneys.

Lynn, did you --

A. (Lynn Feasel) No. I was thinking --

A. (Charles Junis) Okay.

A. (Lynn Feasel) -- legal was the one that needs to address that question.

MR. DROOZ: Thank you.

And the procedural request was that we had some testimony from the Public Staff on PFAS cost, which is not a settlement issue. It's a disputed issue. And we would ask that Amanda Berger be allowed to take the stand in rebuttal.

COMMISSIONER BROWN-BLAND: All right. When we're done with this panel, I'll allow Ms. Berger just to meet the exact information that came forward just to balance the record out.

All right. Any other questions?

MR. DROOZ: None from Aqua.

COMMISSIONER BROWN-BLAND: All right. Questions?

EXAMINATION BY MS. CULPEPPER:

Q. You were asked about retroactivity. Would there be a retroactivity issue regarding the payroll adjustment?

A. (Lynn Feasel) So could you maybe restate the question?

A. (Charles Junis) So I think you're referring to the payroll adjustment, in terms of in projected years --

Q. Yes.

A. -- as opposed to a base year. So I don't think there would be a retroactive concern there, given that it is in these projected years, and because it's part of the stipulation. But --

A. (Lynn Feasel) Yeah. But for the payroll adjustment part, we did discuss that issue that we agree that the Company will hire the third-party consulting firm to make audit on the payroll positions that need to be filled.

And if the Company does not feel in the position that is the greater power recommended by the audit company, then we believe the Commission would have the authority to reserve the right to have a further audit to make the adjustment to payroll -- payroll positions.

MS. CULPEPPER: Okay. Those are all of our questions.

COMMISSIONER BROWN-BLAND: And I have one question, maybe two.

EXAMINATION BY COMMISSIONER BROWN-BLAND:

Q. But with regard to the conservation pilot, and isn't it possible that -- do you think the pilot should continue through the WSIP through 2025?

A. (Charles Junis) I do not think it should continue through the WSIP. I think if the Company wants to do conservation runs, let's apply them wholesale and do it and see what --

Q. You wouldn't have that as an option? You wouldn't?

A. Right.

Q. Okay.

A. Because they weren't gonna commit to that, and so I just -- again, we've stated our concerns with that. I don't want to rehash this too much.

But there is concern that that pilot, that sample, is not representative, and so you can't even extrapolate those findings, and then you can't directly tie those findings to the rates as opposed to there's no analysis of weather.

Q. But for you and Ms. Feasel, would continuing it just through the end of the WSIP ease some of the accounting issues that you identified, the problems, make it easier to do?

A. Continuing would make it harder. If you continue the conservation pilot, it makes it harder to implement the WSIP and the annual review.

Q. Harder to do the review and make the calculations?

A. Right. Because you're gonna have potential over earnings, or do they fall under. And then you're gonna also have an adjustment of did customers reduce their usage, and so then they're owed a surcharge going forward? And so did they really under earn, or was there additional revenues there? And then vice versa. If you owe a refund, do you then have to factor that in?

And all of that is going to be happening either coinciding with an annual review or the timing won't match up. So my personal opinion is it makes it more complex and harder to implement the WSIP.

COMMISSIONER BROWN-BLAND: All right.

Is there follow-up?

MS. CULPEPPER: No follow-up.

COMMISSIONER BROWN-BLAND: All right. All right. Then you may be excused. You had --

MS. CULPEPPER: You admitted the two exhibits to our testimony?

COMMISSIONER BROWN-BLAND: All right. And the Settlement Exhibits 1 and 2, Public Staff, have been received. If not, they're received now.

(Public Staff Settlement Exhibits 1 and 2 were admitted into evidence.)

COMMISSIONER BROWN-BLAND: All right. And then we want to hear from a rebuttal witness.

MR. DROOZ: Aqua calls Amanda Berger to the stand.

COMMISSIONER BROWN-BLAND: It's my understanding Ms. Berger is being called to address new factual information introduced by the last panel.

MR. DROOZ: Yes.

COMMISSIONER BROWN-BLAND: All right, Ms. Berger. Left hand on the Bible. Raise your right.

Whereupon,

AMANDA BERGER,

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

COMMISSIONER BROWN-BLAND: All right. You may be seated.

DIRECT EXAMINATION BY MR. DROOZ:

Q. If you would state your name and business position for the record, please?

A. Amanda Berger, director of environmental compliance for Aqua North Carolina.

Q. And did you hear the testimony that Mr. Junis just gave with respect to PFAS and its cost?

A. Yes, I did.

Q. And do you have a response to that testimony?

A. I have a clarifying response, yes.

I just wanted to briefly state that -- to Mr. Junis' point that, yes, the Company has been actively sampling and identifying the systems that exceeded the corporate standard of 13 parts per trillion since 2019.

I testified to those in the last rate case, the Sub 526, and identified those sites, which were approximately 27 or 28, I think, was my comments.

He made a comment stating that we had not previously discussed that we were looking at alternative technologies or alternative options for those 27 or 28 sites.

That has been an ongoing process and a part of a plan since the identification back in 2019 -- late 2019, early 2020. So those sites have been on routine running annual averages, so consistently ensuring that they exceed that 13 parts per trillion standard.

I think the second point is, not only have they exceeded 13 parts per trillion, they're consistently well above 13 parts per trillion.

So this subset of 30 average around 35 parts per trillion. And that is what we have included in this capital plan to go ahead and address now.

Of course, in March, I believe it was the 14th -- don't quote me on the date. On March 14th, the EPA announced their proposed MCL. The proposed MCL, of course, is 4 parts per trillion for PFOS and PFOA.

There is a health index standard that was also applied, which you essentially perform a calculation based on health advisory levels, et cetera, for --

COURT REPORTER: I'm sorry. Could you repeat those again?

THE WITNESS: Maybe. I'm working on two

hours of sleep, so I apologize if I'm wrong.

PFNA, PFBS, GenX, PFHxS. I think.

Anyway, so there's the health index standard. That health index standard has been evaluated at the corporate level. We have evaluated all the data that we currently have at Aqua North Carolina. Once that health index standard was included, there is minimal impact to our plan -- overall plan for meeting the MCL for those particular sites.

With respect to the 13 -- between what's 13 and 4, that gray area, I believe that there's some discussion between myself and the Public Staff.

I think the important thing for the -- for us to consider is that what is currently proposed is known. It is known to exceed what the EPA has proposed. It is known to exceed what the Company has been stating that we were going to address since 2020.

These are sites that need to be identified. We have actively looked and sought out alternatives because I don't believe that anyone wants to, you know, install filtration where it's not necessarily needed, right? If there's an option, we want to address it with an alternative option.

But we have to go about it very strategically and holistically because the other options include purchasing, which we discussed purchase water and some of the issues associated with those. That's really one of the options.

The other option is trying to interconnect, which can also create a problem with one of our existing systems. Or it's treatment.

So I just wanted to clarify that, with respect to the MCL -- the proposed MCL -- EPA, of course, the public comment period is now open. The closing date on that is May 30th. Once the public comments are received by EPA, EPA is stating that it's their intent to promulgate by year end. That means that there is a three-year compliance window.

So if it were to be promulgated by year end 2023, we would have to be in compliance with that MCL by 2026 with a potential two-year extension currently by DEQ.

Now, once again, that's -- it hasn't occurred yet, and I can appreciate that comment that it hasn't considered yet.

But as a utility with 30 known that are greater than 13 -- approximately 30 known greater than 13 -- we're looking at an additional close to 200 that fall above 4. So there is -- we have to act and act very quickly.

Even if this rule were to be extended a couple years, that's still a very large number to have to address in a very short amount of time. And I just wanted to make a clarifying comment on that matter.

Q. Just one quick follow-up on that. The amount of PFAS dollars for capital projects that are requested in this case, is that a spend just for the wells or sources that are over 13 parts per trillion?

A. Yes.

MR. DROOZ: Okay. Thank you. That's all.

COMMISSIONER BROWN-BLAND: All right. Is there cross-examination?

MS. JOST: Yes. Just one question.

CROSS EXAMINATION BY MS. JOST:

Q. I believe you indicated that the Company had been looking at alternatives for the 30 sites that exceed 13 parts per trillion; is that correct?

A. We've -- yes. We've evaluated them.

Q. Did you file an alternatives analysis with your testimony or go into detail about that alternatives analysis in your testimony?

A. I don't believe it was requested. It was briefly mentioned during my testimony, but I wasn't aware there was alternatives analysis required for the 30.

Q. But that's -- you're saying that's something the Company's done, but you haven't provided details of that; is that correct?

A. Yes. The Company has performed it, yes.

MS. JOST: Those are all my questions. Thank you.

COMMISSIONER BROWN-BLAND: All right. Any other questions?

(No response.)

All right. Thank you, Ms. Berger.

THE WITNESS: Thank you.

COMMISSIONER BROWN-BLAND: All right. Anything else to come before the Commission related to this matter and the stipulation?

MR. DROOZ: None from Aqua.

MS. CULPEPPER: None from the Public Staff.

COMMISSIONER BROWN-BLAND: All right. I just wish to thank you, and the Commission can tell from what was submitted that a lot of work and a lot of thought went into what you submitted.

And speaking as one, but I think on behalf of all, we greatly appreciate that level of work, because it's for the customers, and it serves the state and its ratepayers well.

And we like to see -- we like to see you working together and helping us get through and understand. You can see how, just on the filing of something that seems simple, it engendered quite a bit of questions.

Just before we adjourn, I'm going to double-check with my staff to be sure we have covered everything. And she's telling me we have covered everything. No, we've not. We've got one more question, so hold on a moment. We'll just take a little five-minute break here and go off the record.

(At this time, a recess was taken from 1:20 p.m. to 1:23 p.m.)

COMMISSIONER BROWN-BLAND: All right. We are back on the record. So after conferring with my able staff, we've determined that we think we have all the Commission's questions fully answered.

And again, I just repeat that we are grateful for both parties' work in bringing this case to the place where it is now. We still have a lot of tough decisions to be made, but that's what we're supposed to do, and we assure you we will provide decisions.

So with that said, thank you again, and we will be adjourned.

(Hearing adjourned at 1:24 p.m. on Monday, April 10, 2023.)

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 appear in the foregoing hearing were duly sworn; that the testimony of said witnesses were 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 the action in which this hearing was taken, 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 12th day of April, 2023.

JOANN BUNZE, RPR

Notary Public #200707300112