

1 PLACE: Dobbs Building  
2 Raleigh, North Carolina  
3 DATE: Friday, September 21, 2018  
4 DOCKET NO.: W-218, Sub 497  
5 TIME IN SESSION: 1:32 P.M. TO 4:14 P.M.  
6 BEFORE: Commissioner ToNola D. Brown-Bland, Presiding  
7 Chairman Edward S. Finley, Jr.  
8 Commissioner Jerry C. Dockham  
9 Commissioner James G. Patterson  
10 Commissioner Lyons Gray  
11 Commissioner Daniel G. Clodfelter  
12 Commissioner Charlotte A. Mitchell

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IN THE MATTER OF:  
Application by Aqua North Carolina, Inc.,  
202 MacKenan Court, Cary, North Carolina 27511,  
for Authority to Adjust and Increase Rates  
for Water and Sewer Utility Service in  
All Service Areas in North Carolina

Volume 14

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

2 COMMISSIONER BROWN-BLAND: Let's come to order.

3 And I think Ms. Sanford had someone to call.

4 MS. SANFORD: I do. I call Shannon Becker for  
5 rebuttal testimony, please.

6 COMMISSIONER BROWN-BLAND: Mr. Becker, you've  
7 already been sworn in.

8 MS. SANFORD: I heard that.

9 THE WITNESS: Yes, ma'am.

10 SHANNON BECKER; Having been previously sworn,  
11 Testified as follows:

12 DIRECT EXAMINATION BY MS. SANFORD:

13 Q Let's see. Mr. Becker, would you state your  
14 name, business address, and occupation for the record  
15 again, please.

16 A My name is Shannon Becker. Business address is  
17 202 MacKenan Court, Cary, North Carolina, 27511. And I'm  
18 sorry. The last part was?

19 Q And your --

20 A President of Aqua North Carolina.

21 Q Getting sort of late in the week, isn't it?  
22 Did you cause to be filed in this case rebuttal  
23 testimony?

24 A I did.

1 Q And supplemental rebuttal testimony?

2 A I did.

3 Q Do you have any changes to make to that  
4 testimony?

5 A To the rebuttal testimony, yes.

6 Q Okay.

7 A I'll just open this up. First, on page 3, line  
8 9, delete the word "is"; then on page 16, line 15, delete  
9 the word "capacity"; line 18, delete the word "capacity."  
10 On page 17, line 1, delete the word "capacity"; line 3,  
11 delete the word "capacity," and line 9, delete the word  
12 "capacity." And that's all.

13 Q Okay. If you were to give this testimony today  
14 consisting of five pages of rebuttal and -- I'm sorry --  
15 five pages of supplemental rebuttal and 52 pages of  
16 rebuttal testimony, would it be as if you have prefiled  
17 it with the addition of your changes?

18 A Yes, ma'am.

19 MS. SANFORD: Commissioner Brown-Bland, I would  
20 request that this be entered into the record as if given  
21 orally from the stand, both the rebuttal and the  
22 supplemental.

23 COMMISSIONER BROWN-BLAND: All right. That  
24 will be allowed, and both the rebuttal and supplemental

1 rebuttal will be received into evidence and treated as if  
2 given orally from the witness stand.

3 MS. SANFORD: Thank you.

4 (Whereupon, the prefiled rebuttal  
5 testimony of Shannon Becker, as  
6 corrected, was copied into the  
7 record as if given orally from  
8 the stand.)  
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**STATE OF NORTH CAROLINA  
UTILITIES COMMISSION  
RALEIGH**

DOCKET NO. W-218, SUB 497

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

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

PREFILED REBUTTAL TESTIMONY OF  
**SHANNON BECKER**  
ON BEHALF OF  
AQUA NORTH CAROLINA, INC.

September 4, 2018

1 Q. HAVE YOU TESTIFIED PREVIOUSLY IN THIS PROCEEDING?

2 A. Yes, I provided Direct testimony filed on July 27, 2018.

3 Q. WHAT IS THE PURPOSE OF THIS TESTIMONY?

4 A. I write to rebut the following Public Staff witnesses, on the specified  
5 positions and adjustments:

6 SERVICE AND REPORTING

7 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

8 A. To rebut the testimony of Mr. Junis concerning Aqua's level of service to  
9 customers.

10 Q. DO YOU AGREE WITH MR. JUNIS'S CHARACTERIZATION OF AQUA'S  
11 SERVICE QUALITY REPONSE?

12 A. I do not. I believe it understates, fails to completely describe, and skews  
13 the accurate picture of Aqua's service quality efforts and of the improved  
14 results.

15 Q. DO YOU AGREE THAT SECONDARY WATER QUALITY CONCERNS,  
16 DUE TO NATURALLY OCCURING IRON AND MANGANESE IN THE  
17 GROUNDWATER, ARE THE SOURCE OF THE BULK OF YOUR  
18 SERVICE QUALITY CONCERNS?

19 A. Unquestionably: they are the source of both the number and pitch of the  
20 vast majority of Aqua's customer complaints.

//

1 Q. CAN YOU PROVIDE SOME STATISTICS CONCERNING THE SCOPE  
2 OF THE IRON AND MANGANESE PROBLEMS, ACROSS THE AQUA  
3 SYSTEM?

4 A. Aqua owns and operates 750 systems comprised of more than 1400 wells  
5 (1312 single points of entry), located in 51 counties across North Carolina.  
6 As noted in Dr. Crockett's testimony, we estimate that about one-half of  
7 Aqua's discolored water complaints come from fewer than 25 (3%) of the  
8 750 systems Aqua owns and operates throughout the state. It is important  
9 to note is that approximately 80 of the 1312 points of entry draw from  
10 groundwater that has appreciable amounts of iron and manganese (Fe +  
11 Mn > 1 or Mn > 0.3 mg/L), but do not currently have filtration to remove iron  
12 and manganese.

13 Q. WHAT HAS AQUA DONE TO IMPROVE THE QUALITY OF THE WATER  
14 AND THE SERVICE WHICH THE COMPANY PROVIDES TO ITS  
15 CUSTOMERS SINCE THE LAST RATE CASE?

16 A. First, Aqua has installed approximately 80 new filters, including 31  
17 greensand filters, since the last rate case at a total investment of  
18 approximately \$13,000,000, supported in the effort by the statutorily  
19 authorized water system improvement charge ("WSIC"). Secondly, Aqua  
20 has proactively initiated a long-term North Carolina Water Quality Plan that  
21 is described in detail in witness Crockett's direct testimony. That Plan,  
22 which was instituted in the Fall of 2017, is an instrumental component of  
23 Aqua's operational efforts to address and remediate secondary water

1 quality issues experienced by some of its customers. Third, Aqua initiated  
 2 a Customer Communications Plan, in conjunction with the above-  
 3 referenced Water Quality Plan, to educate and communicate with  
 4 customers as to the Company's water quality remediation efforts and other  
 5 related matters. Fourth, Aqua is committed to ongoing system  
 6 enhancements to improve both the quality of its water and the reliability of  
 7 the service which the Company provides to its customers. Fifth, Aqua  
 8 regularly meets with and consults with representatives of the Public Staff  
 9 and DEQ to address secondary water quality issues and to seek effective  
 10 solutions for the benefit of the Company's customers. Sixth, Aqua has  
 11 initiated operational changes to better address water quality concerns by  
 12 installing a tank cleaning program and a requirement to flush, at least  
 13 annually, those systems with heightened levels of iron and manganese.

14 Addressing water quality related issues is a high priority for Aqua and the  
 15 Company is committed to make all necessary efforts to address customer  
 16 concerns and complaints.

17 **Q. DOES THE RECORD IN THIS RATE CASE SUGGEST ANY**  
 18 **IMPROVEMENTS IN CUSTOMERS' VIEWS OF YOUR SERVICE AND**  
 19 **COMMUNICATIONS EFFORTS?**

20 **A.** I think so, based on a review of the communications. This is not a highly  
 21 scientific approach, but the following observations are instructional and are  
 22 positive:

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- The number of customers who submitted written statements of position in this docket and the number of systems represented by those statements have decreased since Aqua’s last rate case, four and one-half years ago. As noted in witness Junis’s Direct testimony (pages 12 – 13), during the last rate case (Docket No. W-218, Sub 363), 239 customer statements of position expressing similar concerns to those expressed in this case were submitted. In this case (Sub 497), the Public Staff received approximately 57 written customer statements of position as of August 21, 2018, with 43 detailing water quality issues. In addition, the Commission received approximately 21 customer statements by email. Aqua believes that this is one indication that its efforts at improving the Company’s secondary water quality are bearing fruit.

- In addition, in the Rate Case Order entered by the Commission on May 2, 2014, in the Sub 363 docket, the Commission found, in Finding of Fact No. 16, page 8 that:

*The overall level of service provided by Aqua to its customers is adequate. Additional attention is required to address the issues which arise from elevated levels of naturally occurring iron and manganese in the source water supply in certain Aqua systems.*

I can attest to the fact that Aqua has endeavored to comply in full with the Commission’s directive in the last rate case and that much more than just “additional attention” has been applied toward solving

1 secondary water quality issues affecting some of the Company's  
2 customers. That effort will continue until the problems have been fully  
3 addressed.

4 I am more than willing to provide additional information in response  
5 to questions from Commissioners at the evidentiary hearing as I  
6 believe the Company is on the correct path to effectively addressing  
7 the secondary water quality issues which have and continue to  
8 impact some of its customers.

9 **Q. DO YOU AGREE WITH THE PUBLIC STAFF'S RECOMMENDATIONS  
10 REGARDING WATER QUALITY CONCERNS AS SET FORTH ON  
11 PAGES 24-26 OF MR. JUNIS'S TESTIMONY?**

12 **A.** I generally agree with Mr. Junis's recommendations, with some exceptions.  
13 I will discuss each recommendation separately and will discuss my areas of  
14 disagreement.

15 **Q. MR. JUNIS'S FIRST RECOMMENDATION IS THAT AQUA BE  
16 REQUIRED TO CONTINUE TO FILE BI-MONTHLY WRITTEN REPORTS  
17 ADDRESSING WATER QUALITY CONCERNS IDENTIFIED AND  
18 PRESENTED BY CUSTOMERS AT THE PUBLIC HEARINGS. THESE  
19 REPORTS WOULD BE REQUIRED FOR THE FOLLOWING SYSTEMS:  
20 BAYLEAF, HALLMARK, SADDLE RUN, WATERFALL  
21 PLANTATION/THOMPSON MILLS, UPCHURCH, AERO PARK, AND  
22 YORKWOOD. IS AQUA WILLING TO FILE THESE REPORTS?**

1 A. Yes. Aqua agrees to continue to file these reports and to provide the  
 2 information requested by the Public Staff in Mr. Junis's testimony. The  
 3 Company does, however, request that these reports be filed on a quarterly  
 4 basis rather than bi-monthly. Aqua has been filing essentially the same  
 5 bi-monthly reports regarding secondary water quality concerns in Docket  
 6 No. W-218, Sub 363A, since May 28, 2014. We do not believe the  
 7 additional reporting provides a benefit that justifies the required use of  
 8 resources---resources that Aqua submits could be better used to resolve  
 9 the underlying problems. That said, the Company will obviously file on  
 10 whatever interval directed.

11 **Q. MR. JUNIS'S SECOND RECOMMENDATION IS THAT AQUA BE**  
 12 **REQUIRED TO CONTINUE TO FILE THE SEMI-ANNUAL SECONDARY**  
 13 **WATER QUALITY REPORTS WHICH THE COMPANY HAS BEEN**  
 14 **FILING IN DOCKET NO. W-218, 363A SINCE AUGUST 15, 2014. IS**  
 15 **AQUA WILLING TO FILE THESE REPORTS?**

16 A. Yes. The Company is certainly willing to continue to file these semi-annual  
 17 reports on June 1 and December 1 of each year if the Commission finds  
 18 them useful.

19 **Q. MR. JUNIS'S THIRD RECOMMENDATION IS THAT AQUA BE**  
 20 **REQUIRED TO CONVEY TO THE PUBLIC STAFF CONVERSATIONS**  
 21 **WITH, REPORTS TO, AND THE RECOMMENDATIONS OF DEQ**  
 22 **REGARDING THE WATER AND WASTEWATER QUALITY CONCERNS**  
 23 **BEING EVALUATED AND ADDRESSED IN AQUA'S SYSTEMS IN A**

1           TIMELY MANNER. THE PUBLIC STAFF REQUESTS THAT SUCH  
 2           COMMUNICATIONS BE IN A WRITTEN FORMAT AND PROVIDED, AT  
 3           A MINIMUM, ON A BI-MONTHLY BASIS. IS AQUA WILLING TO AGREE  
 4           TO THIS RECOMMENDATION?

5    A.   Not unless it comes as a Commission directive. The Company recognizes  
 6           that this provision is identical to a provision required by the Commission in  
 7           the Company's Sub 363 rate case in an Order dated May 2, 2014, in  
 8           Decretal Paragraph No. 12. Aqua respectfully asserts, however, that this  
 9           provision is unduly burdensome, unnecessary and is less productive than  
 10          other modes of communication and reporting. Aqua is always willing to  
 11          meet with the Public Staff and/or DEQ upon request or upon specified  
 12          intervals to discuss issues and to provide relevant information. The reality  
 13          is that Aqua is constantly in conversation with its regulators, at all levels of  
 14          the Company. Requiring this level of formality and reporting would likely  
 15          hinder the open lines of communications that Aqua has worked to establish  
 16          to facilitate collaboration between Aqua and its environmental regulators.  
 17          Further, I respectfully submit that placing responsibility on Aqua to reduce  
 18          to writing notes on all "conversations" with DEQ personnel is onerous,  
 19          susceptible to abuse and misinterpretation, unproductive, and does not  
 20          contribute to our collective ability to understand and act on solutions. It also  
 21          breeds the opportunity for mis-understanding as to what one entity actually  
 22          said and another entity thought they heard. This can lead to a level of  
 23          distrust which is avoided if the entities seeking to communicate simply meet



1 jointly with each other at specified intervals or on topics specified, exchange  
2 information, and jointly report. If the Commission desires to see the joint  
3 reports of such meetings, we believe that could be useful.

4 Finally, the Public Staff is an independent state agency with extensive and  
5 valuable professional resources, and we are aware that the Staff has been  
6 in conversation with DEQ about a range of matters, including these  
7 secondary water quality issues. The Staff is entirely capable of  
8 independently securing directly from DEQ the information that the Staff now  
9 wants Aqua to provide indirectly by way of likely imperfect notes. By direct  
10 conversation, the Public Staff can verify DEQ's position, leaving no  
11 opportunity for miscommunication and no concern about reliance on  
12 anyone else's interpretation. It is a far better means by which the Public  
13 Staff should ascertain for itself information that it deems important, and it is  
14 particularly useful for the Staff, the Company, and DEQ to meet or talk as a  
15 group.

16 Aqua supports development of necessary, useful reports. However, it  
17 assumes that the benefit of any reporting requirement should justify the  
18 costs, which are ultimately borne by ratepayers, if reasonable. This is an  
19 issue that should be susceptible of resolution between Aqua and the Public  
20 Staff. The Company requests that the Commission decline to order these  
21 reports and, instead, hold that this is a matter to be resolved between the  
22 parties.

1 Q. MR. JUNIS'S FOURTH RECOMMENDATION IS THAT AQUA SHOULD  
 2 (a) BE ORDERED TO COMPILE AND INCORPORATE THE AFTER-  
 3 HOURS WATER QUALITY COMPLAINTS IN ANY FUTURE WATER  
 4 QUALITY REPORTS AND (b) SUBMIT SUPPLEMENTAL FILINGS  
 5 DETAILING ANY ADDITIONAL COMPLAINTS, CUSTOMERS, AND/OR  
 6 SUBDIVISION SERVICE AREAS IN THE SEVENTH AND EIGHTH SEMI-  
 7 ANNUAL REPORTS TO DETERMINE WHETHER ADDITIONAL  
 8 SUBDIVISION SERVICE AREAS MEET THE 10%/25 THRESHOLD. IS  
 9 AQUA WILLING TO AGREE TO THIS RECOMMENDATION?

10 A. Aqua certainly agrees to fully compile and incorporate after-hours water  
 11 quality complaints in future water quality reports as recommended by the  
 12 Public Staff. However, we see no merit in re-examining the Seventh and  
 13 Eighth Semi-Annual Reports in view of the fact that Mr. Junis apparently  
 14 found no evidence during his investigation that additional service areas may  
 15 have met the 10%/25 reporting threshold and should have been included in  
 16 those reports. Nevertheless, the Company is certainly willing to undertake  
 17 that endeavor if ordered to do so by the Commission. Aqua would request  
 18 that reports not be required when there are fewer than six water quality  
 19 complaints from a system or service area.

20 Aqua also strongly disagrees with the insinuation by Mr. Junis at page 19  
 21 of his testimony, lines 6-11, that the Company has somehow willfully failed  
 22 to comply with Decretal Paragraph 11 of the Sub 363 rate case order and  
 23 that penalties should be imposed for any failures to comply on a going-

1 forward basis. To be clear, no proof of such a willful failure by the Company  
 2 has been brought forward, and none exists. Mr. Junis fails to point out that  
 3 the Semi-Annual Water Quality Reports are jointly filed by the Company and  
 4 the Public Staff. Aqua initially prepares these Reports and then provides  
 5 them to the Public Staff for review and the addition of comments by the  
 6 Staff. This is a cooperative endeavor. The Company hides nothing and  
 7 prepares what it considers to be a comprehensive report. Inadvertent errors  
 8 may happen, but they are certainly not willful. Aqua is always willing to have  
 9 an open dialogue with the Public Staff and eager to respond to questions,  
 10 particularly if the Staff believes there are misstatements or errors in the draft  
 11 reports, or in any other matter. The Company believes that this approach  
 12 has been successful in providing volumes of accurate and useful  
 13 information to the Commission and that there is neither merit in nor cause  
 14 to impose a threat of sanctions on the Company. This is another  
 15 unfortunate example of the Public Staff raising service quality issues  
 16 designed to call into question the integrity of Aqua's management decisions.

17 **Q. CAN YOU EXPLAIN WHY MR. JUNIS SUMMARIZED CUSTOMER**  
 18 **TESTIMONY THAT IS ALREADY IN THE RECORD OF THIS**  
 19 **PROCEEDING AND WHICH WAS THE SUBJECT OF THREE REPORTS**  
 20 **BY AQUA, WHICH ARE ALSO FILED IN THE DOCKET?**

21 **A. No.**

1 Q. DID MR. JUNIS'S SUMMARY INCLUDE ANY POSITIVE STATEMENTS  
2 MADE BY WITNESSES WITH REGARDS TO SERVICES PROVIDED BY  
3 FIELD STAFF?

4 A. No.

5 Q. DID HIS SUMMARY INCLUDE ANY OF THE CUSTOMER TESTIMONY  
6 THAT SHOWED CUSTOMER CONFUSION ABOUT EITHER THE  
7 SOURCE OF THEIR WATER, THEIR WASTEWATER TREATMENT  
8 SYSTEM, OR THEIR UNDERSTANDING OF CONTAMINANTS ABOUT  
9 WHICH THEY WERE CONCERNED?

10 A. No.

11 JOHNSTON COUNTY

12 Q. WHEN DID YOU BECOME AWARE THAT THE PUBLIC STAFF HAD  
13 CONCERNS ABOUT AQUA'S PAST PERFORMANCE UNDER  
14 DEVELOPER CONTRACTS FOR THE FLOWERS PLANTATION  
15 DEVELOPMENTS?

16 A. Aqua approached the Public Staff in April 2018, seeking input on Aqua's  
17 options to purchase bulk wastewater treatment capacity from Johnston  
18 County ("County") for use in its Buffalo Creek service area. As it had done  
19 in the past, Aqua hoped to work with the Public Staff to achieve a mutually  
20 beneficial decision that provides a consumer benefit and is fair to the  
21 Company. In response to the Company's request, Public Staff engineer  
22 Charles Junis and other Public Staff members met with representatives of

1 Aqua on April 18, 2018 to discuss the terms and accounting treatment of  
 2 Aqua's rights to purchase bulk wastewater treatment capacity from  
 3 Johnston County for use in its Buffalo Creek service area. After responding  
 4 to several data requests from the Public Staff, representatives from Aqua  
 5 again met with the Public Staff on May 23, 2018. At that meeting, Mr. Junis  
 6 made a 28-page Power Point presentation explaining the Public Staff  
 7 position. It was during this presentation that Mr. Junis first raised questions  
 8 concerning the Company's administration of these contracts.

9 **Q. MR. JUNIS CONTENDS THAT AQUA HAS COLLECTED**  
 10 **CONTRIBUTIONS IN AID OF CONSTRUCTION ("CIAC") FROM**  
 11 **DEVELOPERS FOR MORE THAN 200,000 GALLONS OF CAPACITY IN**  
 12 **EXCESS OF THE EXISTING 350,000 GALLONS PER DAY ("GPD")**  
 13 **CAPACITY OF THE NEUSE COLONY WASTEWATER TREATMENT**  
 14 **PLANT ("WWTP"). DO YOU AGREE WITH THIS CONTENTION?**

15 **A.** No, I do not. Mr. Junis apparently misunderstands how a utility is operated  
 16 and the basis on which such decisions are made. He bases his opinion on  
 17 the amount of sold capacity that appears on the Company's books rather  
 18 than the actual flow capacity, which is the correct basis on which such  
 19 business decisions to build or buy capacity should be made.

20 The current available capacity in the Neuse Colony WWTP is 350,000 gpd,  
 21 which includes the recent 100,000 gpd capacity upgrade completed in 2016.  
 22 When the WWTP was originally permitted, it was rated at 360

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gpd/residential customer. Over time, Aqua applied for flow reductions that reduced the rating from 360 gpd to 240 gpd, and then again from 240 gpd to the current rating of 180 gpd, which is one-half of the original rating. Flow reductions are performed to more closely represent actual wastewater flows being treated. The reduction in flow ratings maximizes the number of units that can be serviced and sold within an area served by the WWTP. For example, using a 360 gpd flow rating, the 350,000 gpd WWTP would be able to effectively serve 972 lots (350,000 / 360). However, using a rerated 180 gpd flow for this same plant would allow it to effectively serve 1944 lots (350,000 / 180). In his calculation, Mr. Junis utilizes the 360 gpd and 240 gpd ratings that were initially used but fails to consider the updated WWTP rerating that uses current flows for these lots and for which decisions to build or buy are also made. The current flows are summarized in Table 1 below, along with the sold capacity and the related CIAC for the same lot activity included in Junis Table 7.

Table 1

Sold <u>@ Various GPD</u>	DEQ Rerate <u>@ 180 GPD</u>	CIAC <u>Collected \$</u>
561,001	316,445	\$2,294,168

17

1 Mr. Junis incorrectly concludes that the Company has oversold the Neuse  
 2 Colony plant capacity by 211,000 gpd, thereby creating a risk of overflows  
 3 and/or incomplete treatment. He concludes that this will create a CIAC  
 4 shortage when Aqua has to expand the plant; this is simply not the case.  
 5 Based on the remaining amount of actual capacity existing in the plant after  
 6 applying DEQ flow reduction rates, which are more representative but still  
 7 higher than actual flows, Aqua is only utilizing approximately 316,000 gpd  
 8 of capacity and it collected CIAC of \$2,294,168. This exceeds the related  
 9 original plant cost of \$2,166,023 (per Junis Table 7), and the WWTP will still  
 10 have capacity remaining to be sold and additional CIAC to be collected,  
 11 further reducing rate base.

12 The reality is that the flow reductions have essentially doubled the capacity  
 13 available to sell, which increases the potential for capacity fees and  
 14 revenues. This is a benefit not only to the Company but also to its  
 15 customers.

16 **Q. HAVE YOU REVIEWED THE TESTIMONY OF PUBLIC STAFF WITNESS**  
 17 **JUNIS WITH REGARD TO BUFFALO CREEK AND DO YOU AGREE**  
 18 **WITH HIS RECOMMENDATIONS?**

19 **A.** I have reviewed his testimony and do not agree with his recommendations.  
 20 In his testimony, Mr. Junis references a series of contracts entered into  
 21 between 1999 and 2002. While not every entity involved was a party to all  
 22 contracts, they were unique and unusual agreements that were generally

1 complicated, multiple party contracts among Heater Utilities, Inc. ("Heater"),  
 2 River Dell Utilities, Inc., Rebecca Flowers Finch (d/b/a River Dell Company)  
 3 and Johnston County. The contracts were negotiated and signed on behalf  
 4 of Heater by its then President, William E. Grantmyre. Heater is a  
 5 predecessor company to Aqua.

6 **Q. MR. JUNIS MAKES AN ADJUSTMENT RELATED TO THE COLLECTION**  
 7 **OF INTERCONNECTION RELATED FEES. HAVE YOU REVIEWED**  
 8 **THAT ADJUSTMENT, AND DO YOU AGREE WITH IT?**

9 **A.** I have reviewed that adjustment and I do not agree. In 2002, Heater entered  
 10 an amended purchase agreement with River Dell Utilities, Inc. and Rebecca  
 11 D. Flowers d/b/a River Dell Company, the primary developer of the service  
 12 area. The agreement provided in part for Heater and River Dell to share  
 13 the cost of a large Buffalo Creek pump station and force main. About  
 14 \$440,000 of Heater's unrecovered cost in the system was to be recovered  
 15 through capacity fees charged equally to the first 2,000 customers  
 16 (\$220/customer) to use the force main and pump station. It was not until  
 17 2006---four years later---that the first contract was entered into with a  
 18 developer in which the capacity fee could have been charged. About one  
 19 year prior to entering this contract (early to mid-2005), much of the  
 20 management team of Heater---people who were familiar with the terms of  
 21 the contract, including Mr. Grantmyre---left the company. As a result of  
 22 these changes and due to an oversight during the transition, Aqua failed to



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include a pro rata portion of the capacity fees in developer contracts between 2006 and 2018, which resulted in approximately \$315,000 of capacity fees not being collected from developers. This was at least four rate cases and numerous contiguous extension filings ago. In essence, armed with the benefit of hindsight, Mr. Junis and the Public Staff now seek to impose a significant penalty on the Company due to an oversight that initially occurred more than a decade ago and which has been available for review and action for years. It is simply not appropriate to impute \$315,000 of uncollected capacity fees as a reduction to Aqua's rate base based on an after the fact review so far removed from the time at which the oversight occurred. This is particularly true when ample opportunity for regulatory oversight or correction existed in the interim. This effectively amounts to a \$315,000 write-off of rate base and penalty to Aqua.

**Q. HAVE YOU PERFORMED A CAPACITY COMPARISON FOR THE BUFFALO CREEK SIDE OF THE FLOWERS PLANTATION DEVELOPMENT?**

**A** Yes, I have. The following chart (Table 2) for lots located on the Buffalo Creek side of the Flowers Plantation development includes 1) the capacity originally sold per the books, 2) the capacity purchased after adjusting all sold capacity for the current DEQ approved capacity reduction quantities of 180 gpd, and 3) the tributary capacity actually needed using the most recent peak flow calculations utilized in the last plant rerating of 154 gpd. Table 2

1 shows that capacity sold to developers on the Buffalo Creek side of the  
 2 Flowers Plantation development has not yet exceeded 250,000 gpd, and  
 3 that the full \$2,000,925 of CIAC collected is related to and was needed to  
 4 acquire the 250,000 gpd of capacity from Johnston County in June, 2018.

5 Table 2

	Sold @ Various GPD	DEQ Rerate @ 180 GPD	Actual Peak Flow @ 154 GPD	CIAC Collected \$
YTD 2018	333,671	259,752	234,863	\$2,000,925

6  
 7 Plant upgrades and capacity are acquired as needed and as a WWTP's  
 8 actual flows approach capacity. A book capacity calculation should not  
 9 dictate the building or purchase of additional capacity – to do so would be  
 10 an imprudent use of CIAC and/or Company funds. Stated simply, Aqua has  
 11 not oversold the capacity of the plant as alleged by Mr. Junis.

12 **Q. IN ADDITION TO THE REDUCTION IN RATED FLOWS, ARE THERE**  
 13 **OTHER REASONS WHY AQUA CHOSE NOT TO PURCHASE**  
 14 **WASTEWATER CAPACITY FROM JOHNSTON COUNTY IN**  
 15 **INCREMENTAL AMOUNTS OVER PREVIOUS YEARS?**

16 **A.** Yes. The 2002 contract that Heater entered into to purchase bulk  
 17 wastewater from Johnston County for the Buffalo Creek service area  
 18 provided that Heater would not use that capacity until sometime later and

1 would instead use the existing pump station and force main to transport the  
 2 wastewater to Heater's WWTP at Neuse Colony. The contract  
 3 acknowledges that Heater may choose to fully build out its 750,000g WWTP  
 4 prior to diverting any flow to the County for treatment. Heater was to collect  
 5 capacity fees from developers using the County's then prevailing capacity  
 6 fee for bulk wastewater treatment. While the Agreement suggests  
 7 otherwise, the reality is that the County does not actually have a prevailing  
 8 rate. Rather, the County contends that bulk capacity rates are established  
 9 on a negotiated basis. The impression that a prevailing rate exists to which  
 10 the Company has immediate access is simply not accurate. Heater was to  
 11 pay to Johnston County the then prevailing capacity fee, which was, at the  
 12 time of the 2002 agreement, \$5.50 per gallon per day. The contract does  
 13 not explain how the capacity fee of \$5.50/gpd was determined or how it is  
 14 defined. The most important point, however, is that the contract provides  
 15 that the County capacity fee "shall be adjusted in the future based on the  
 16 County's cost of construction of the County's wastewater treatment plant".  
 17 To the best of our knowledge, no construction of the County WWTP has  
 18 occurred since 2006.

19 Aqua collected capacity fees under two developer contracts in early-2006  
 20 at the \$5.50/gpd rate, which was subsequently changed to \$6.00/gpd.  
 21 Aqua did not purchase the capacity from the County immediately upon  
 22 collecting the capacity fees and instead retained the CIAC for a later

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1 purchase of capacity from the County when it was needed. Aqua had  
2 enough capacity at its Neuse Colony wastewater plant and did not need the  
3 capacity, particularly in view of the reduction in flow rates.

4 The Public Staff and Aqua might not have a dispute on this issue in this rate  
5 case if Mr. Junis's suggestion to buy capacity when the CIAC was received  
6 had been accepted by the Company---*even though the additional capacity*  
7 *was not needed*. However, following Mr. Junis's recommendation to  
8 purchase capacity as cash (CIAC) is received, and ignoring capacity  
9 demands based on actual flows (which demonstrated a lack of need), would  
10 have been an imprudent decision by the Company. The premature  
11 purchase of unneeded capacity from Johnston County benefits only the  
12 County, which receives the cash, while negatively impacting Aqua's  
13 customers by resulting, unnecessarily, in higher rates. If capacity is  
14 purchased in this manner, CIAC collected would only be offsetting the asset  
15 purchased instead of remaining on the books to reduce existing rate base.  
16 It could also subject Aqua to the risk of an additional excess capacity  
17 adjustment.

18 **Q DO YOU AGREE WITH MR. JUNIS'S PROPOSAL TO IMPUTE CIAC TO**  
19 **AQUA BECAUSE HE BELIEVES THE COMPANY OVERPAID**  
20 **JOHNSTON COUNTY FOR CAPACITY IN 2018 AND UNDER-**  
21 **COLLECTED FROM DEVELOPERS?**

1 A. No, I do not. In 2009, the County quoted a price of \$6.29/gpd for capacity,  
2 which included \$4.83/gpd for wastewater treatment capacity and \$1.46/gpd  
3 for transmission fees to upgrade the County collection system. This was  
4 not presented as a prevailing rate, but rather was an initial price quote. In  
5 2018, Aqua approached the County about purchasing the capacity in lieu of  
6 further expanding its Neuse Colony wastewater plant. The County quoted  
7 a rate of \$8.48/gpd. It should be noted that the rate quoted by the County  
8 included \$5.34/gpd of wastewater treatment capacity and \$3.14/gpd for  
9 transmission fees to upgrade the County's collection system. This further  
10 amplifies the many complications resulting from the contracts negotiated by  
11 Heater in 2002, in that the initial capacity fee did not include the costs of  
12 upgrades for the transmission system. The agreement clearly states that  
13 the County would invoice monthly for bulk wastewater transmission service  
14 and is silent as to transmission fees anywhere else in the agreement.  
15 Transmission fees were to be recovered on a monthly basis through usage  
16 charges and not as part of the capacity fee. Again, the initial contract with  
17 the County says that the capacity fee shall be adjusted in the future based  
18 on the County's cost of construction of its WWTP. As previously stated, to  
19 the best of my knowledge, construction of the county WWTP has not been  
20 upgraded since 2006 and the separate costs to upgrade the transmission  
21 lines have not begun. Therefore, the County capacity fee charge now  
22 should be \$5.34/gpd instead of \$8.48/gpd.

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1 Due to the rapid growth rate of Flowers Plantation, expected to be  
2 approximately 300 lots per year, Aqua began to review capacity needs  
3 based on actual flows in 2017. While considering plans to expand the  
4 Neuse Colony WWTP, Aqua also decided to examine the option of  
5 purchasing wastewater capacity from Johnston County, which is only  
6 reserved (guaranteed) until 2022. Aqua determined that a better approach  
7 was to begin acquiring and using the Johnston County capacity before it  
8 expired.

9 Aqua needed the capacity and paid \$8.48/gpd to the County even though it  
10 should have been \$5.34/gpd. Aqua collected \$6.00/gpd from most of the  
11 developers, so the Company had more than enough funding to purchase  
12 the capacity at \$5.34/gpd.

13 Aqua decided to purchase as much capacity as could be purchased using  
14 the CIAC received from the Buffalo Creek developments of \$2,000,925.  
15 Since Aqua is required to purchase capacity in 25,000-gallon blocks from  
16 the County, Aqua purchased 250,000 gallons of capacity after rounding up  
17 to the next closest 25,000-gallon increment ( $\$2,000,925 / \$8.48 = 235,958$   
18 gallons) at the \$8.48/gpd price for a total amount paid to the County of  
19 \$2,120,000.

20 Mr. Junis argues that Aqua should have purchased the 250,000 gallons of  
21 capacity in increments at the time the Company collected the CIAC from the  
22 developers. He argues that since Aqua paid \$8.48/gpd to the County in

1 2018 and only collected an average of \$5.99/gpd from developers over the  
2 past 12 years for the first 250,000 gallons, Aqua overpaid by \$2.49/gpd. He  
3 then effectively proposes to impute about \$622,500 ( $\$2.49 \times 250,000$   
4 gallons) of CIAC to reduce Aqua's rate base, even though Aqua never  
5 collected the money.

6 This is yet another recommendation based on a 12-year retroactive review--  
7 --an attempt to reconstruct and attack management decisions made over  
8 years, through various changes in corporate management, through various  
9 rate cases, and in light of a pattern of frequent conversations among  
10 management and the Public Staff over the years about the Johnston County  
11 matters and of the filing of numerous developer agreements with the  
12 Commission. The effect is yet another penalty to Aqua in the amount of  
13 \$622,500, not to mention the penalty that results from Mr. Junis's reduction  
14 to rate base that occurs by selectively leaving the remaining \$503,925  
15 ( $\$2,000,925 - \$1,497,000$ ) balance of Buffalo Creek related CIAC on the  
16 books which reduces unrelated rate base. In hindsight, Aqua could have  
17 purchased the capacity on a pay as you go basis, without regard to whether  
18 it was needed. Alternatively, Heater, in the original bulk sewer and primary  
19 developer contracts entered in 2002, could have provided that the capacity  
20 fees be paid directly by the developers to the County. Bear in mind these  
21 original Heater contracts contemplated a possible full buildout of Heater's  
22 Neuse Colony wastewater plant prior to use of any purchased County

1 capacity. If nothing else, the complexity associated with the arrangement  
 2 established in the original contract and the extensive, complicated series of  
 3 transactions over the years among the County, the developer and the utility,  
 4 reinforce Aqua's view that it is inappropriate to use "management by  
 5 hindsight" to impose a significant penalty against Aqua by imputing CIAC  
 6 that was never collected.

7 **Q. HAS THE PUBLIC STAFF HAD OTHER OPPORTUNITIES TO REVIEW**  
 8 **THE ISSUES THAT IT NOW RAISES IN THIS DOCKET?**

9 A. Yes, on multiple occasions. The initial contract for purchase of bulk  
 10 wastewater from the County was properly filed with the Commission in  
 11 Docket No. W-274, Sub 392. Therefore, the Public Staff was made aware  
 12 of the capacity fees that were to be charged for the recovery of the cost of  
 13 the pump station and force main (Heater's cost / 2,000 customers), and the  
 14 capacity fees to be recovered from developers for purchase of capacity from  
 15 the County (\$5.50/gpd). Yet, neither of these provisions was included in  
 16 Heater's tariff. Had those provisions been included in the tariff, it would  
 17 have been less likely that the recovery of the cost of the pump station and  
 18 force main would have been overlooked after the management changes at  
 19 Heater/Aqua. In addition, all of the developer contracts have been filed in  
 20 contiguous extension applications, each had fees included, and none had  
 21 a provision for recovery of the cost of the pump station and force main. The  
 22 Public Staff has had multiple opportunities to question the Company's



1 actions when these filings were made and to challenge the amount of the  
 2 cost per gallon. No problems were ever noted, that we can determine. In  
 3 addition, Aqua has filed multiple general rate cases with the \$5.50/gpd or  
 4 \$6.00/gpd capacity rates in effect, and these issues were never raised. In  
 5 fact, over a twelve-year period, with over 50 contiguous extensions filed and  
 6 four separate general rate cases, the Public Staff never questioned the  
 7 capacity fee of \$6.00/gpd, so far as we can determine. It should be  
 8 remembered that the subject contracts were signed on behalf of Heater by  
 9 William E. Grantmyre, who is now employed by the Public Staff and is one  
 10 of the Public Staff's attorneys in this docket. To the best of my knowledge,  
 11 Mr. Grantmyre has participated in all the referenced Aqua general rate  
 12 cases as an employee of the Public Staff and has never raised any issues.  
 13 Of course, it is not the sole responsibility of the Public Staff to raise such  
 14 matters. However, if the provisions in question had been initially included  
 15 in the tariff, it would have made it easier for both the Company and the  
 16 Public Staff to identify and address the issue, had that been necessary. The  
 17 Commission's Orders are important, and they are relied upon by investors  
 18 and lenders. It is simply not reasonable for the Public Staff to ignore  
 19 approximately 12 years of filings and decisions and now, with the benefit of  
 20 hindsight, adjust rate base and impute fictionalized CIAC when the  
 21 investment and financial communities have relied on more than a decade  
 22 of Company management, regulatory oversight, and Commission decisions  
 23 that have been entered after the execution of these contracts.

1 Q. DO YOU AGREE WITH MR. JUNIS'S PROPOSAL TO REMOVE \$2.12  
2 MILLION FROM PLANT IN SERVICE BECAUSE HE VIEWS IT NOT TO  
3 BE "USED AND USEFUL?"

4 A. While it may be subject to debate, I am advised by counsel that an argument  
5 can be made to include these costs in rate base because the capacity will  
6 be used within a reasonable time frame after the close of our evidentiary  
7 hearing. This adjustment is related to the 2018 purchase of capacity,  
8 discussed earlier. Mr. Junis removes \$2.12 million from plant in service  
9 because he concludes that it is not used and useful. The problem results  
10 because Mr. Junis chose not to remove a corresponding amount of CIAC,  
11 but instead, chose to remove only \$1.497 million of CIAC. The net result is  
12 an imputation of approximately \$623,000 of CIAC to Aqua, which it never  
13 collected. In essence, Mr. Junis's used and useful argument is a  
14 smokescreen to justify an inappropriate imputation of CIAC that was never  
15 collected and, if his proposal is accepted, will never be collected.  
16 Nonetheless, Mr. Junis makes this adjustment because the 250,000 gallons  
17 of capacity purchased from the County will not be available until 2019.  
18 While the concept of "used and useful" is a common term used in the utility  
19 industry, Aqua made the purchase because the capacity will be needed with  
20 a reasonable time after the test period and because the purchase was being  
21 encouraged by the Public Staff. The holdup results because construction  
22 of facilities necessary for Aqua to utilize the capacity it has purchased have

1 not been completed. Mr. Junis criticizes Aqua for not making periodic  
2 purchases over the last decade when the capacity was not needed even  
3 over a long-term horizon. Mr. Junis quotes N.C. Gen. Stat. § 62-133(b)(1),  
4 which says that the Commission should ascertain the original cost of  
5 property used and useful or to be used and useful within a reasonable time  
6 after the test period (Emphasis added). While I am not a lawyer, I have  
7 been advised by counsel that North Carolina courts have held that  
8 customers could be assessed costs for future customers when the costs  
9 were based on a short-term projection. It seems obvious that the capacity  
10 purchased by Aqua from Johnston County benefits ratepayers and will be  
11 used within a reasonable time after the test period, or on the basis of a  
12 short-term projection. Based on that, it would seem to follow that it could  
13 appropriately be included in rate base.

14 While the company submits that it is appropriate to include the full amount  
15 in rate base, at the very least, it should be allowed to create an asset held  
16 for future use and recover carrying charges on the amount of the purchase.

17 **Q. DO YOU BELIEVE THAT AQUA'S CUSTOMERS HAVE BEEN OR WILL**  
18 **BE HARMED BY THE COMPANY'S OVERSIGHT IN NOT COLLECTING**  
19 **THE CIAC ASSOCIATED WITH PUMP STATION AND FORCE MAIN OR**  
20 **BY PAYING MORE FOR THE JOHNSTON COUNTY CAPACITY FEES**  
21 **THAN IT COLLECTED?**

1 A. No. If developers had paid more CIAC, they would likely have increased  
2 the price of their lots or houses to recover the cost, so those customers  
3 benefited from a reduced purchase price. In addition, Aqua has increased  
4 CIAC cost recovery and reduced costs to developers by obtaining flow  
5 reductions from the State to allow more houses to be served by the existing  
6 capacity. This produces more revenues and more CIAC for the Company  
7 and customers and reduces upfront costs to the developer, which should  
8 translate to lower lot/home cost.

9 In fact, the historic collection of CIAC related to the Buffalo Creek lots,  
10 without the immediate purchase of an offsetting capacity asset as preferred  
11 by Mr. Junis, has provided current customers an immediate benefit through  
12 reduced rates. Although this cash is collected and recorded on Aqua's  
13 books as CIAC immediately, no corresponding asset to offset the CIAC was  
14 recorded on the books until the 250,000 gallon capacity asset was  
15 purchased in June 2018. Since the recorded CIAC did not have a  
16 corresponding offsetting asset, the CIAC balance was effectively netted  
17 against and reduced other non-related rate base. As a result, all Aqua rate  
18 cases filed since the first Buffalo Creek CIAC was collected in 2006 have  
19 result in a reduced rate base, a reduced revenue requirement, and  
20 ultimately a reduction in rates paid by customers. If Aqua used that cash  
21 (CIAC) received to purchase capacity from Johnston County, this benefit  
22 would have been eliminated, thus resulting in higher rates.

1 Q. DO YOU AGREE WITH MR. JUNIS'S SUGGESTION THAT THE NEUSE  
2 COLONY EXPANSION FROM 250,000 GALLONS TO 350,000 GALLONS  
3 AMOUNTED TO AN IMPRUDENT DECISION?

4 A. No. I do not. Mr. Junis states that the \$908,497 cost of the expansion was  
5 greater than the cost of \$848,000 for the purchase of the equivalent capacity  
6 from Johnston County. Mr. Junis failed to consider the cost of the  
7 transmission line from the WWTP to the Johnston County interconnection  
8 point. The current engineering estimate for the 250,000 gallon transmission  
9 line is \$900,000. This cost includes engineering and the cost to purchase  
10 and install the necessary pumps, metering equipment, valves, electrical  
11 equipment, force main and tie in with Johnston County. A 100,000 gallon  
12 transmission line would have costs similar to the costs of the 250,000 gallon  
13 transmission line. The Company estimates that the pumps, metering  
14 equipment, valves, force main and tie-in associated with transferring  
15 100,000 gallons would cost at least \$600,000, which is about the same as  
16 transferring 250,000 gallons. The total cost for the Johnston County option  
17 would have been \$1,468,000 (the sum of \$848,000 and \$600,000), which  
18 is far more than the \$908,497 spent for the 100,000 gallon per day  
19 expansion. The 100,000 gallon per day Neuse Colony WWTP expansion  
20 was prudent based on the information available to Aqua at that time. As  
21 stated in the contract, Aqua can provide wastewater treatment at the Neuse

1 Colony WWTP until Aqua makes the interconnection to Johnston County's  
2 collection system and chooses to divert wastewater to the County.

3 **Q. WHAT IS YOUR OVERALL CONCLUSION ON MR. JUNIS'S**  
4 **RECOMMENDATIONS?**

5 A. All of Mr. Junis's recommendations provide for adjustments that unilaterally  
6 penalize Aqua, using hindsight and interpretations of a unique contract that  
7 has been in place for more than 15 years. Aqua has acted prudently to  
8 determine when capacity is required to be purchased, not based on a book  
9 amount sold, but rather on a determination of when plant flows reach a  
10 plant's capacity limits. The Flower's Plantation Developments consist of  
11 two separate areas – the Neuse Colony lots and the Buffalo Creek lots. The  
12 agreements attempt to separately dictate differing capacity fees for each  
13 side based on different factors, yet the flows and lots being serviced are  
14 combined. This issue alone has created several conflicts resulting from  
15 rates being charged at the time of closing rather than the time actual  
16 capacity is needed. Aqua has made prudent management decisions using  
17 the best available information at the time, based on its understanding of the  
18 contract terms. The basis of Mr. Junis's testimony relies on one of many  
19 possible interpretations of the correct amount for capacity the utility should  
20 have charged developers and paid the County. Unfortunately, Mr. Junis's  
21 decision to interpret this complicated contract narrowly and the Public  
22 Staff's apparent desire to penalize the Company amounts to oversight by

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1 hindsight and is arbitrary and unfair. Mr. Junis ignores as a mitigating factor,  
2 or as a solution, the Company's ability to collect additional CIAC by selling  
3 additional capacity made available through the rerating process, which may  
4 result in the collection of cash (CIAC) that even exceeds the plant's original  
5 cost.

6 **Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS TO THE**  
7 **COMMISSION.**

8 **A.** In summary, my recommendations and requests to the Commission are as  
9 follows:

- 10 1. Allow for the \$2,120,000 of Buffalo Creek related capacity  
11 purchased from Johnston County to remain in plant in service,  
12 which is effectively offset (netted) by the \$2,000,924 in CIAC  
13 collected from the closed Buffalo Creek lots for which this  
14 capacity serves;
- 15 2. Deny Mr. Junis's proposal to associate and reclassify only  
16 \$1,497,400 of the total \$2,000,924 of CIAC collected from the  
17 Buffalo Creek lots;
- 18 3. Alternatively, should the Commission order the \$2,120,000  
19 capacity asset to be removed from plant in service, Aqua  
20 requests that the Commission agree the full \$2,000,924 amount  
21 of CIAC collected from the Buffalo Creek lots, which will

- 1 effectively utilize all 250,000 gallons of the capacity purchased,
- 2 also be removed to properly offset this related asset;
- 3 4. Allow the full \$908,497 actual cost incurred to build the 100,000-
- 4 gallon plant expansion in 2016 to remain in rate base; and
- 5 5. Disallow Mr. Junis's proposal to impute \$315,687 of CIAC related
- 6 to the costs for the Buffalo Creek Lift Station and Force Main.

**EXCESS CAPACITY**

**Q. DO YOU DISAGREE WITH WITNESS JUNIS'S PROPOSAL TO MAKE EXCESS CAPACITY ADJUSTMENTS AFFECTING AQUA'S CAROLINA MEADOWS, THE LEGACY AT JORDAN LAKE, AND WESTFALL SERVICE AREAS?**

A. *No. I do not disagree with Witness Junis's excess capacity calculation (as it has been used in prior cases). Aqua does, however, recommend and request that plant amounts determined to be excess, and removed from rate base, should be allowed to receive deferred accounting treatment. This would allow the Company to defer the recovery of depreciation and continue to capitalize carrying costs until the capacity is actually utilized. Aqua's proposal would provide a better matching of the new customer revenues that are utilizing the capacity with the actual costs to economically build the capacity. Aqua will review on an annual basis the amount of new capacity being utilized and the deferral treatment will stop being recorded on the Company's books for any portion once it is actually being utilized.*



1 Q. DOES DEFERRED ACCOUNTING TREATMENT HARM CURRENT  
2 CUSTOMERS?

3 A. No. Portions of assets determined to be excess will continue to be removed  
4 from rate base and related expenses associated with such portions of the  
5 assets will be excluded from the Company's current revenue requirement.  
6 Allowing deferral accounting treatment will do no harm to current customers  
7 and may, in fact, provide a benefit. The current treatment of excess capacity  
8 promotes short-term decision-making on projects that may otherwise  
9 realize savings opportunities from utilizing economies of scale, a result  
10 which can ultimately result in increased costs to current customers. In  
11 contrast, utilization of deferred accounting treatment for "excess" assets  
12 would likely benefit current customers through a reduced revenue  
13 requirement via realized savings that result from a company's ability to take  
14 advantage of economies of scale when building plant.

15 Q. PLEASE DESCRIBE IN FURTHER DETAIL WHY UTILIZING DEFERRED  
16 ACCOUNTING TREATMENT FOR EXCESS CAPACITY SHOULD BE  
17 BENEFICIAL TO CURRENT CUSTOMERS.

18 A. A simple example of this would be a utility's decision to build a 100,000-  
19 gallon plant capacity that could serve current customers and expected  
20 growth for the next three years, versus building a 200,000-gallon expansion  
21 that could be utilized for current customers and expected growth over the  
22 next six years. The 200,000-gallon expansion project is likely to be much

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more cost effective, even when considering the time value of money, than completing two separate 100,000-gallon capacity expansion projects to a wastewater treatment plant. This is true even though you end up with the same capacity in the end. The second 100,000 gallons of the single 200,000-gallon project, however, is also likely to be considered excess and the utility will be prevented from recovering any depreciation expense or carrying costs until it is determined to no longer be excess when using the current excess capacity treatment. In this example, a utility is disincentivized from taking advantage of any economies of scale and prompted to make a short-term decision to build the smaller capacity plant. Management is likely to take advantage of all economies of scale that ultimately benefit customers, but the disincentive that exists from excess capacity treatment adds an unnecessary financial penalty to the utility for so doing.

**Q. WHAT IS THE AMOUNT OF EXCESS CAPACITY FOR WHICH YOU ARE REQUESTING DEFERRED ACCOUNTING TREATMENT AND WHAT IS THE FINANCIAL IMPACT TO RATES IN THIS RATE CASE?**

A. Aqua requests that it be provided deferred accounting treatment with respect to the excess capacity recommended for adjustment by Witness Junis that results in a \$32,940 reduction of the revenue requirement in this rate case. The financial impact to rates that would result from deferred accounting treatment in this rate case is zero, as only the prospective

1 related depreciation expense and any carrying costs will be deferred until  
2 the excess capacity is actually being used.

3 **ONE CALL/811 OUTSIDE VENDOR CONTRACT**

4 **Q. ON PAGE 56 OF WITNESS JUNIS'S TESTIMONY, HE RECOMMENDS**  
5 **REDUCING AQUA'S WORKFORCE LABOR AND BENEFITS EXPENSE**  
6 **BY 50% FOR FOUR POSITIONS, DUE TO AQUA'S DECISION TO**  
7 **CONTRACT WITH AN OUTSIDE VENDOR TO DO LINE-LOCATES. DO**  
8 **YOU AGREE WITH THIS ADJUSTMENT?**

9 **A.** No, I do not. Witness Junis seeks to arbitrarily eliminate part of Aqua's  
10 workforce---overriding a responsible management decision to re-deploy  
11 employees to other tasks---due to management's decision to employ an  
12 outside vendor to comply with "One Call/NC 811" work. Mr. Junis's  
13 adjustment is essentially the elimination of two full time employees ("FTEs"),  
14 and it should be summarily rejected as it (a) reflects an unsupportable and  
15 inappropriate intrusion into management decisions; (b) ignores Aqua's  
16 demonstrated need and prerogative to contract with outside vendors for  
17 completion of a range of activities which are not the Company's core  
18 competencies, specifically including line locates; and (c) ignores the fact  
19 that there was no staff reduction, as staff time was reassigned to other core  
20 services.

21 **Q. WHEN DID THE COMPANY BEGIN LOOKING AT THIS ISSUE AND THE**  
22 **POSSIBILITY OF OUTSOURCING THE "ONE CALL/NC 811" WORK?**

1 A. In 2017, the operations management team made and supported a  
2 recommendation to outsource line locate work related to "One Call/NC 811"  
3 requirements.

4 The Company determined that these functions are more reasonably  
5 managed and handled by outside vendors who specialize in the activity.  
6 The contract with USIC, LLC ("USIC") was executed on February 26, 2018,  
7 and USIC began to handle 811 call volume on May 1, 2018.

8 **Q. WHAT FACTORS SUPPORTED THE COMPANY'S DECISION TO RELY**  
9 **ON AN OUTSIDE VENDOR FOR THIS FUNCTION?**

10 A. Management focused on the choices and the evaluation of alternatives---  
11 including hiring more FTEs to perform the work internally---and decided to  
12 outsource this activity based on the following factors:

- 13 • The skill-set necessary to complete line locates is different than
- 14 those of water and wastewater professionals;
- 15 • Using Aqua's water and wastewater professionals to complete the
- 16 large volume of line locates is disruptive to their normal work
- 17 schedules;
- 18 • This work is episodic and includes emergency locate requirements;
- 19 • It is an inefficient use of a water/wastewater supervisor's time to
- 20 continuously manage this effort; and
- 21 • Using a firm with statewide coverage, specific expertise, and ongoing

1 activity in our areas of operation provided efficiencies and assurance  
2 of consistency.

3 It was clear to Aqua management that use of outside, specialized resources  
4 were the most appropriate option.

5 The decision to contract line locate work additionally included---but was not  
6 limited to---consideration of benefits of avoiding additional hires for line  
7 locates, elimination of the responsibility of managing a non-core service,  
8 and reduction of risk and liability related to unaddressed line locates.  
9 Time previously spent by Aqua employees to respond to line locate work  
10 orders is now used for other water and wastewater duties which are more  
11 directly in line with Aqua's core services. These services---the need for  
12 which is increasing over time, not decreasing---include maintenance on  
13 filters, pumps, lift stations, wastewater treatment plant equipment, collection  
14 and distribution lines, reporting requirements, environmental regulatory  
15 compliance, flushing initiatives, sludge hauling, testing, close the loop  
16 initiatives, and meeting customer expectations.

17 **Q. HAS THE PUBLIC STAFF MADE OR SUPPORTED ANY CLAIM THAT**  
18 **AQUA IS OVERSTAFFED?**

19 **A.** No. Aqua's field workforce and supervisors are fully utilized daily to handle  
20 their workload. Mr. Junis's testimony does not state that Aqua has either  
21 an excessive field supervisory or field staff workforce. Moreover, prior to the  
22 Public Staff's filing of testimony in this rate case, I have never heard anyone

1 from the Public Staff or other regulatory agency state that Aqua is  
 2 overstaffed for field personnel and I can confidently state that our field staff  
 3 employees are fully utilized. To the contrary, the Public Staff has, on  
 4 several occasions in public forums in the past year, stated that Aqua was  
 5 significantly understaffed in some respects.

6 **Q. WHAT WAS AQUA'S INTENT RELATED TO LINE LOCATE WORK?**

7 A. Aqua's intent was and is to cost-effectively meet regulatory requirements  
 8 and reduce our risk of asset damage and liability.

9 **Q. DO YOU AGREE WITH THE WITNESS JUNIS'S ASSUMPTION THAT AN  
 10 AQUA SUPERVISOR WAS SPENDING HALF OF HIS/HER TIME  
 11 MANAGING THE ONE CALL/NC 811 PROCESS?**

12 A. No, I do not, and this is an incorrect assumption. In fact, the lack of a  
 13 supervisor – or half of a supervisor -- was one of the drivers for the need to  
 14 outsource this program.

15 **Q. DO YOU THINK THERE WILL BE A REPAIR SAVINGS BY HAVING  
 16 REDUCED CONTRACT CLAIMS?**

17 A. I cannot say that at this time because it cannot be known at this time. I  
 18 believe any attempt to meaningfully correlate use of outside vendors with a  
 19 change in the repair cost experience is, at this point, sheer hypothesis and  
 20 is definitely not known and measurable. That said, the program has just  
 21 begun, results will be tracked and monitored, and those results will be

1 available for a future audit. In the meantime, reduction of the expenses for  
2 employees who are actually on payroll and fully deployed doing necessary  
3 work shows indifference on the part of the Public Staff to (a) management's  
4 prerogative to make deployment decisions; (b) the reality of Aqua's need  
5 for the staff; and (c) the fact that this is an opportunity to retain and use  
6 existing staff for legitimate purposes, rather than having to hire new  
7 employees.

8 **Q. WHAT IS YOUR RESPONSE TO MR. JUNIS'S RECOMMENDATIONS**  
9 **WITH RESPECT TO THE USE OF A PROFESSIONAL, SPECIALIZED**  
10 **OUTSIDE VENDOR TO HANDLE AQUA'S RESPONSIBILITY TO**  
11 **LOCATE LINES?**

12 **A.** I respectfully recommend that the Commission reject---as inappropriate and  
13 unwarranted---all recommendations associated with reduction in workforce  
14 due to Aqua's decision to contract with an outside vendor to perform line  
15 locate services. The amount of labor previously expended addressing line  
16 locates was minimal; however, all previous time spent by these Aqua field  
17 staff and supervisors related to the provision of line locate services was  
18 filled with work on other core water and wastewater services necessary for  
19 operations. Making an adjustment to eliminate 50% of three field  
20 technicians and 50% of one supervisor, all of whom continue to be actively  
21 employed performing other work-related duties, is nonsensical.

1 I further note that it is essential to Aqua, as a regulated utility, that regulation  
2 observe the difference between proper regulatory oversight and attempts to  
3 supplant management's obligation to prudently run the business.

4 **Q. WHAT IS YOUR RECOMMENDATION IN RESPONSE TO THIS PUBLIC**  
5 **STAFF ADJUSTMENT?**

6 A. I respectfully submit that rejection of this adjustment and of the Public Staff's  
7 insufficient rationale is appropriate. Such action would provide needed  
8 guidance about the proper balance that should be struck between the  
9 regulator and the regulated, with respect to the responsibility to manage the  
10 business on a day-to-day basis.

11 **CONSUMPTION ADJUSTMENT MECHANISM**

12 **Q. PLEASE DESCRIBE AQUA'S POSITION IN SUPPORT OF THE COMPANY'S**  
13 **REQUEST FOR APPROVAL OF A CONSUMPTION ADJUSTMENT**  
14 **MECHANISM ("CAM") AND THE COMPANY'S REACTION TO THE DIRECT**  
15 **TESTIMONY OF PUBLIC STAFF WITNESS CHARLES JUNIS.**

16 A. My Direct Testimony and the Direct Testimony of Public Staff Witness Junis  
17 review the genesis and path of CAM proposals, from Aqua's origination of  
18 it, through the Environmental Finance Center's ("EFC") study and 2016  
19 report, to the Company's effort to secure legislation to confirm and reiterate  
20 the Commission's existing authority to implement such a mechanism.

21 In recognition of the need that drives Aqua to seek relief regarding the  
22 impact of declining consumption on recovery of the Company's revenue



1 requirement, Aqua notes the EFC's statement that "...analysis  
 2 demonstrates that average water use has declined significantly among  
 3 Aqua water customers, relative to test year average water use, although  
 4 has recently stabilized close to 5,000 gallons/month average for ANC  
 5 customers. The drop in average consumption reduced the water revenues  
 6 generated below the rate case revenue requirements for most years  
 7 (despite a growth in customers)." page 58, Environmental Finance Center  
 8 Report to the Public Staff of the North Carolina Utilities Commission and  
 9 Aqua North Carolina, Inc. March 28, 2016. *Studies of Volumetric  
 10 Wastewater Rate Structures and a Consumption Adjustment Mechanism  
 11 for Water Rates of Aqua North Carolina, Inc.*<sup>1</sup>

12 The Public Staff's objections, as set forth in Witness Junis's testimony, are  
 13 essentially three, none of which present an impediment to Commission  
 14 approval of a CAM, should the Commission agree with the industry's  
 15 repeated requests for some consideration in ratemaking of the fact that  
 16 average consumption, overall, is declining. The proof has been presented  
 17 and the Public Staff has not refuted it.

18 The Public Staff focuses not on any alternative solution, but rather on what  
 19 it finds objectionable about Aqua's proposed solution. Specifically:

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<sup>1</sup> <https://starw1.ncuc.net/NCUC/ViewFile.aspx?id=a7fd9d58-46ed-425f-9298-c4419f319a1f>

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1. The Public Staff, as a matter of general principle, prefers that ratemaking mechanisms be specifically authorized by the General Assembly before being considered by the Commission.

The Staff's policy preference is its prerogative, but that preference has no bearing on the issue of whether the Commission has inherent authority to implement a CAM.

Aqua respectfully reiterates its position that the Commission has the authority, in a rate case, to implement a mechanism such as this, and that adequate reason exists to do so based on the clear evidence of declining consumption. To set rates based on consumption figures that are unreliable indicators of future consumption is to undermine a utility's opportunity to recover its investment and earn a fair return.

2. The Public Staff has concerns about the 1% threshold and the calculation methodology proposed by Aqua.

The Staff's concerns are easily met in a rulemaking. Aqua has proposed a methodology, but it is clearly understood that, in a rulemaking, all interested entities would participate in crafting the rules and procedures, under the Commission's direction.

3. The Public Staff expresses concern that a hypothetical interrelationship between growth and usage could, in some situations, "...contribute to the Company potentially earning above and beyond the Commission's approved

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rate of return." *Junis Direct Testimony, page 64, lines 7-*

9.

I have two responses to the Staff's concern on this point:

- a) The Commission can, unquestionably, in a rulemaking devise a method of oversight that guards against over-earning as a result of the potential situations the Public Staff describes; and
- b) The contrast is striking between the Public Staff's concern about a potential eventuality that could readily be controlled by Commission oversight, and the Staff's indifference to the persistent problems faced by the Company (and the industry) due to the declining consumption trend.

In summary, Aqua's position is that the Commission does have the inherent statutory authority to adopt such a mechanism and that an effective rulemaking would undoubtedly improve on Aqua's specific proposal and assure ample customer safeguards.

**EXPENSES FOR COMMUNICATIONS**

**Q. DO YOU AGREE WITH PUBLIC STAFF'S REMOVAL OF THE \$133,000 THAT AQUA INCLUDED IN RATE CASE EXPENSES FOR COMMUNICATIONS SERVICES?**

**A.** Yes and no. I agree that the entirety of this amount should arguably not be included in rate case expense; however, I believe the entire amount should

1 be recoverable, some as rate case expense and some as a line-item in cost  
2 of service. I will explain my position more fully below.

3 **Q. PLEASE EXPLAIN YOUR CURRENT VIEW THAT RECOVERY SHOULD**  
4 **BE HAD PARTIALLY AS A RATE CASE EXPENSE AND PARTIALLY AS**  
5 **A LINE-ITEM IN RATES.**

6 **A.** First of all, a word on the nature of recovery in a rate case. Rate case  
7 expenses, if approved by the Commission, are generally recoverable on an  
8 amortized basis, typically over three years. Line-item expenses are built  
9 into rates as a persistent part of the revenue requirement. The  
10 communications expenses presented by this discussion are appropriate for  
11 recovery in part as a rate case expense, and in part as a line-item.

12 Aqua requested recovery of the estimated expenses for the Paige Group  
13 (\$58,000) and associated costs related to material printing and mailings  
14 (\$75,000) as a rate case expense item. With the enhanced perspective that  
15 a rate case examination affords, Aqua now submits that some of this  
16 recovery is properly associated with the rate case, and some is more  
17 properly treated as a line-item expense, built into rates to reflect the on-  
18 going nature of the communications work required.

19 Thus, the Company respectfully requests that the Commission authorize  
20 recovery of the \$133,000, subject to final true-up to actual related expenses  
21 incurred, 50% as a rate case expense and 50% as a recurring line item  
22 expense. Aqua would like to continue settlement negotiations with the

1 Public Staff on this matter, and I respectfully request the right to update this  
2 testimony prior to or at the hearing, depending on the course of  
3 negotiations.

4 In the meantime, I would like to provide explanation of the rationale and  
5 support for the work of the Paige Group and for these expenses.

6 **Q. PLEASE PROVIDE SOME BACKGROUND ON AQUA'S WATER**  
7 **QUALITY COMMUNICATIONS PLAN.**

8 A. The Company's water quality communications plan is directly related to its  
9 Water Quality Plan. As described in Aqua Witness Crockett's testimony,  
10 Aqua is pressing forward with a water quality operations program that is  
11 utilizing a combination of increased capital and operational process  
12 improvements to address water quality. Working with the Public Staff and  
13 DEQ, the Company has prioritized sites and aesthetic water quality issues  
14 based on notice of deficiencies and engineering and health data, along with  
15 customer complaints. The Company presented the water quality operational  
16 plan to the Commission, Attorney General, and Public Staff on January 30,  
17 2018, in a meeting rescheduled from late 2017 due to the press of the  
18 Commission's calendar. Vitally important to the success of this program is  
19 the effective communication of the general water quality issue the Company  
20 is trying to solve, where it does and does not exist, how it will be solved,  
21 and the timeline associated with it. Our ability to educate and communicate

1 with our customers on this issue is a critical piece of the success of the  
2 program.

3 Mailings related to the communications plan began the following month, in  
4 February 2018.

5 **Q. PLEASE PROVIDE MORE INFORMATION ON THE ADDITIONAL**  
6 **SUPPORT PROVIDED BY THE PAIGE GROUP.**

7 A. Aqua enlisted the assistance of an outside firm and entered into a contract  
8 with the Paige Group to help with the water quality communications plan as  
9 well as with other efforts to generally educate customers, including about  
10 the rate case. The specific functions performed by the Paige Group  
11 included the following:

- 12 • Developed [www.ncwaterquality.com](http://www.ncwaterquality.com) content for each section of the  
13 website.
- 14 • Developed a letter to all Aqua customers mailed in February 2018  
15 announcing the Company's water quality improvement plan/approach  
16 and directing customers to the website.
- 17 • Developed 18 distinct letters to customers within various Aqua systems  
18 that have been most engaged with Aqua on secondary water quality  
19 issues. The letters outlined any improvement work already completed  
20 in each system, discussed any future planned work, and directed  
21 customers to the water quality website. All letters issued in June 2018.

- 1 • Developed a bill insert issued in June/July 2018 directing all customers
- 2 to the water quality website.
- 3 • Developed two e-newsletters (one issued in June and another issued
- 4 in August) to customers that signed up to receive updates on the water
- 5 quality website.
- 6 • Developed a customer "print on the run" ("POTR", similar to a bill
- 7 insert), issued in August directing customers to the water quality
- 8 website.

9 All these communications are designed to direct customers to the  
 10 information on Aqua's Water Quality Plan, which is found at  
 11 [www.ncwaterquality.com](http://www.ncwaterquality.com). Assistance provided by the Paige Group was  
 12 additionally designed to help Aqua communicate with customers,  
 13 government leaders, associations, and the media about the rate case.  
 14 Good communication is a necessary component of good service,  
 15 particularly given the confusion many customers understandably have  
 16 about the complex procedures associated with the ratemaking process.

17 **Q. DO YOU AGREE WITH THE ASSERTION THAT THE MATERIALS WERE**  
 18 **"SELF PROMOTIONAL" AS DESCRIBED BY THE PUBLIC STAFF?**

19 **A.** No. The materials are essential to efforts to educate Aqua customers, both  
 20 about infrastructure investment, the necessity and components of rate  
 21 increases, and---in particular---about secondary water quality issues. The  
 22 goal is to create a hub of information on [www.ncwaterquality.com](http://www.ncwaterquality.com) to

1 educate customers about infrastructure improvements and the various  
 2 issues concerning secondary water quality. One primary goal is to have  
 3 every piece of material generated include the link to  
 4 [www.ncwaterquality.com](http://www.ncwaterquality.com), which provides valuable educational information  
 5 about secondary water quality and the Company efforts to address it.

6 It is interesting that the Public Staff interprets so broadly its responsibility to  
 7 communicate with customers---as it should---yet takes such a narrow view  
 8 of the Company's prerogative to do the same. This is especially the case in  
 9 light of the clear need for customer understanding of issues and proposed  
 10 resolutions. Aqua would not consider making allegations regarding motive  
 11 or propriety with respect to the nature of the Public Staff's outreach to  
 12 customers---which includes assistance with drafting, revision, and  
 13 presentation of comments to the Commission. Similarly, so long as Aqua's  
 14 communications are accurate, transparently done, reasonably priced, and  
 15 serve the purpose of necessary and useful communications with a customer  
 16 base that is clearly hungry for information and guidance, it is neither  
 17 appropriate nor fair to eliminate reasonable costs predicated on baseless  
 18 allegations of alternative motives for the communications.

19 **Q. PLEASE COMMENT ON THE TIMING OF THE MAILINGS.**

20 **A.** This communication plan is ongoing, has continued since the public input  
 21 hearings and will persist well beyond the duration of this rate case. The  
 22 timing of the mailing is related to the Water Quality Plan roll out, not to the



1 timing of the rate case. The Water Quality Plan reflects the core of Aqua's  
2 determined and long-term focus on addressing water quality concerns, and  
3 it necessarily has an important communications component. Just as the  
4 Public Staff reaches out to customers in a variety of ways to educate,  
5 explain, or influence their understanding of various matters associated with  
6 water quality issues, the Company also is obligated and entitled to attempt  
7 to explain concerns, root causes, and actions designed to resolve those  
8 problems.

9 **Q. PLEASE COMMENT ON WITNESS COOPER'S ALLEGATION THAT**  
10 **THE DESCRIPTION "PUBLIC RELATIONS FIRM" IS EVIDENCE THAT**  
11 **THE CUSTOMER COMMUNICATION MATERIALS ARE "SELF**  
12 **PROMOTIONAL".**

13 **A.** Respectfully, my comment is that conclusion is baseless---without merit or  
14 rationale---and unsupported by the facts about the various functions served  
15 by "public relations" firms. Public relations firms can certainly serve  
16 promotional purposes, just as they can assist with crisis management and  
17 a range of other needs. They also routinely address the "...state of the  
18 relationship between the public and a company or other organization."<sup>2</sup> I  
19 cannot imagine that the Public Staff would argue that Aqua does not need

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<sup>2</sup> See Google for range of functions.  
[https://www.google.com/search?source=hp&ei=0oOKW\\_aNHsvYsAXZvrTYDg&q=public+relations&btnK=Google+Search&og=public+relations&gs\\_l=psy-ab.3..0i131j0l9.4342.6491..6769...0.0..0.84.1094.16.....0....1..gws-wiz.5y-v8JU-CU0](https://www.google.com/search?source=hp&ei=0oOKW_aNHsvYsAXZvrTYDg&q=public+relations&btnK=Google+Search&og=public+relations&gs_l=psy-ab.3..0i131j0l9.4342.6491..6769...0.0..0.84.1094.16.....0....1..gws-wiz.5y-v8JU-CU0)

1 to focus additional efforts not only on its Plan to address water quality, but  
2 also on its communications with its customers about the Plan, its impact on  
3 those customers, and about matters generally raised in any rate case. In  
4 sum, "public relations firm" is simply a general description for a company  
5 that provides a broad range of services, including communications support.

6 **Q. DOES AQUA EMPLOY A WEB DESIGNER OR GRAPHIC DESIGNER?**

7 A. No. Aqua does not have the capability to build a website or do graphic  
8 design work. Due to the importance, scope and impact of the Plan on  
9 customers, Aqua decided to utilize the assistance of the Paige Group to  
10 assist with this project.

11 **Q. IS PART OF THE WATER QUALITY COMMUNICATIONS PLAN MEANT  
12 TO BUILD TRUST AND CREATE AN ONGOING POSITIVE  
13 RELATIONSHIP BETWEEN THE COMPANY AND AQUA CUSTOMERS?**

14 A. Yes. Directly due to the ongoing iron and manganese issues experienced  
15 by some customers, our relationship with them has suffered. We want to  
16 educate them about what our plans are---particularly that we want to provide  
17 quality drinking water service and are determined to do that at a reasonable  
18 rate.

19 **Q. DO YOU BELIEVE THAT CUSTOMERS, REGULATORS, AND THE  
20 COMPANY ALL BENEFIT FROM ACCURATE AND PUBLIC  
21 COMMUNICATIONS, DESIGNED TO EDUCATE ABOUT THE**

1           **IMPORTANCE OF INFRASTRUCTURE INVESTMENT, AND IN**  
2           **PARTICULAR, SECONDARY WATER QUALITY ISSUES?**

3    A.    Absolutely. And I submit that so long as it is correctly done and at  
4           reasonable cost---which we contend is the case here---it should be  
5           recoverable in rates.

6    **Q.    COULD THE COMPANY HAVE INCLUDED THE LETTERS AS A**  
7           **MONTHLY BILLING INSERT, AS PUBLIC STAFF WITNESS COOPER**  
8           **MAINTAINS?**

9    A.    Certainly. The Company utilizes the monthly bills for many types of  
10           communication, including the water quality communication plan at issue  
11           here. A monthly billing insert is cheaper than the postage accompanied by  
12           a direct mail. However, there are advantages to a direct mailer; this added  
13           imprimatur of importance is reflected in the requirement to direct-mail a rate  
14           notice. For example, many Aqua customers receive their bills electronically  
15           and may not take the time to open and read the electronic bill. The same  
16           is true for monthly bills. While I believe that Aqua should and will continue  
17           to take advantage of monthly bills for customer education, Aqua should also  
18           include direct mailing, when appropriate, in its range of communications  
19           tools.

20   **Q.    DO YOU BELIEVE THIS ADJUSTMENT IS AN ATTEMPT BY THE**  
21           **PUBLIC STAFF TO MICROMANAGE AND RESTRICT AQUA'S ABILITY**  
22           **TO EFFECTIVELY COMMUNICATE WITH AND EDUCATE ITS**

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1 CUSTOMERS BY PROPOSING AN UNJUSTIFIED AND  
2 UNREASONABLE RATEMAKING ADJUSTMENT IN THIS CASE?

3 A. Though I cannot speak to motive, I will say that the effect of the adjustment  
4 would be to micromanage and restrict our ability to improve communications  
5 with our customers. Just as the Public Staff freely communicates with  
6 Aqua's customers in the discharge of its duties---particularly during rate  
7 case investigations---the Company should be allowed to do the same so  
8 long as its actions are reasonable and involve principled educational efforts.  
9 The Public Staff has produced no basis in logic or proof on which to charge  
10 the Company with "self-promotion" and I believe the baseless  
11 characterization should be rejected.

12 Q. WHAT IS YOUR RECOMMENDATION REGARDING THE RECOVERY  
13 OF THESE COSTS?

14 A. My recommendation is that they be recoverable either as rate case  
15 expenses or as an expense line-item, and the recommendation is premised  
16 on Aqua's representation that they are legitimate, prudently incurred, and  
17 necessary expenses of serving our customer base in North Carolina.

18 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

19 A. Yes, it does.

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

STATE OF NORTH CAROLINA  
UTILITIES COMMISSION  
RALEIGH

DOCKET NO. W-218, SUB 497

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

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

PREFILED SUPPLEMENTAL REBUTTAL TESTIMONY OF  
**SHANNON BECKER**  
ON BEHALF OF  
AQUA NORTH CAROLINA, INC.

September 7, 2018

1 Q. HAVE YOU TESTIFIED PREVIOUSLY IN THIS PROCEEDING?

2 A. Yes, I provided Direct Testimony filed on July 27, 2018 and Rebuttal  
3 Testimony on September 4, 2018.

4 Q. HAVE YOU REVIEWED THE EXCESS CAPACITY ADJUSTMENT THAT  
5 PUBLIC STAFF WITNESS MANASA COOPER MADE IN HER  
6 SUPPLEMENTAL TESTIMONY FILED IN THIS DOCKET ON  
7 SEPTEMBER 5, 2018?

8 A. Yes. In her Supplemental Testimony, Witness Cooper states that the Public  
9 Staff's initial excess capacity adjustment has been further adjusted to reflect  
10 activity through June 30, 2018. As a result, the Public Staff's excess  
11 capacity adjustment increased by \$518,095.

12 Q. DID WITNESS COOPER DESCRIBE THE NATURE OF AND REASON  
13 FOR THIS ADDITIONAL SUPPLEMENTAL ADJUSTMENT?

14 A. No. Witness Cooper simply stated that a supplemental adjustment had  
15 been made and she then set forth the dollar amount of the adjustment.

16 Q. HAVE YOU BEEN ABLE TO DETERMINE THE NATURE AND REASON  
17 FOR THE PUBLIC STAFF'S ADDITIONAL SUPPLEMENTAL  
18 ADJUSTMENT?

19 A. Yes. Subsequent to the test year in this case, which ended on September  
20 30, 2017, Aqua completed an upgrade project at its Carolina Meadows  
21 wastewater treatment plant ("WWTP"). The total cost of this project was  
22 approximately \$1.7 million. This project was necessary to prevent further

1 degradation and failure of the current equalization basin. The existing  
2 equalization basin was rehabilitated which included metal restoration,  
3 sandblasting and painting. Additional work included replacement of the  
4 degraded handrails, installation of new blowers, piping and diffusers. The  
5 digester was rehabilitated and the existing malfunctioning mechanical fine  
6 screen was replaced with a new Huber fine screen. This work was not  
7 performed to provide additional capacity of the plant, but simply to maintain  
8 the aging and deteriorating asset already in place.

9 These upgrades or improvements substantially benefitted current  
10 customers and were not required for the purpose of serving future  
11 customers. In the exhibits to its direct testimony, the Public Staff included  
12 the entire cost of this project in the Company's rate base; i.e., in effect  
13 agreeing that the project is used and useful and appropriate for inclusion in  
14 Aqua's cost of service. Public Staff Witness Cooper did not make an excess  
15 capacity adjustment for this project in her direct testimony but has now done  
16 so in her Supplemental Testimony.

17 **Q. DO YOU DISAGREE WITH THE PUBLIC STAFF'S SUPPLEMENTAL**  
18 **EXCESS CAPACITY ADJUSTMENT AND, IF SO, WHY?**

19 **A.** Yes, I disagree with the adjustment. In my Rebuttal Testimony, I stated  
20 that, on behalf of Aqua, I did not disagree with Public Staff Witness Junis's  
21 excess capacity calculation (as it has been used in prior cases) but did  
22 request that plant amounts determined to be excess, and removed from rate



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base, should be allowed to receive deferred accounting treatment. This continues to be the Company's position. However, by this Supplemental Rebuttal Testimony, I am now requesting that the Commission disallow the Public Staff's excess capacity adjustment for the Company's 2018 investment at the Carolina Meadows WWTP. This adjustment is inappropriate and unreasonable. The revenue impact of this adjustment is a reduction of \$59,717.

In the case of Carolina Meadows and any of the other 58 WWTPs that Aqua owns and maintains, WWTP rehabilitation is often needed to maintain and preserve the plant's overall condition. At Carolina Meadows, Aqua spent approximately \$1.7 million in making necessary rehabilitations and upgrades. These types of needed plant upgrades should not be subject to an excess capacity adjustment that effectively disallows 30.63% of this upgrade immediately after this investment was made by the Company. Such an adjustment for these types of capital expenditures are unreasonable and unfair to Aqua and, ultimately, to the Company's current customers who are served by and benefitted by WWTP rehabilitations and upgrades.

**Q. DID THE PUBLIC STAFF INCLUDE AS PART OF ITS INITIAL EXCESS CAPACITY ADJUSTMENT A SIMILAR ADJUSTMENT FOR CAPITAL COSTS INCURRED FOR IMPROVEMENTS AT THE COMPANY'S WWTPS PRIOR TO OR DURING THE TEST YEAR FOR THIS CASE?**

1 A. Yes. The Company included approximately \$175,000 for WWTP  
2 improvements which fall into that category which were excluded by the  
3 Public Staff as part of the excess capacity adjustment made in its Direct  
4 Testimony. Through oversight, Aqua failed to challenge that portion of the  
5 Public Staff's initial excess capacity adjustment. For that reason, Aqua will  
6 accept the Public Staff's initial adjustment for purposes of this case due to  
7 the Company's failure to challenge it in its Rebuttal Testimony but reserves  
8 the right to contest such adjustment in its next rate case. The Company  
9 views this accommodation as a reasonable compromise at this late juncture  
10 of the rate case. The Company does, however, request that the  
11 Public Staff's supplemental excess capacity adjustment related to the post-  
12 test year WWTP rehabilitations and upgrades at the Carolina Meadows  
13 WWTP be rejected and disallowed.

14 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

15 A. Yes, it does

1 Q Mr. Becker, do you have a summary?

2 A I do.

3 Q Would you read it, please?

4 A Sure. The purpose of my rebuttal testimony is  
5 to challenge and refute the direct testimony of Public  
6 Staff Witness Charles Junis with respect to the level of  
7 Aqua service, a discussion that includes the water  
8 quality improvement plan, and the optimal level of  
9 regulatory reporting obligations.

10 Second bullet point, the Johnston County  
11 issues, which include a host of developer agreements, a  
12 complex and very unusual legacy three-part contract, and  
13 excess capacity argument in a tortuous effort to revisit  
14 a long history contract interpretation, management, and  
15 developer decisions back through nearly 15 years of  
16 decisions, rate cases, and a litany of regulatory filings  
17 made with this Commission.

18 Third, the inclusion of \$1.8 million of  
19 upgrades completed by Aqua within the last year that have  
20 been included in the Public Staff's excess capacity  
21 calculation which were required to serve the systems'  
22 existing customer base and maintain environmental  
23 compliance.

24 Fourth, Aqua's prudence in contracting with an

1 outside vendor for the Company's One Call 811 work, and a  
2 resulting adjustment proposed by the Public Staff to  
3 reduce the Company's in-house workforce.

4 And finally, the request for consideration of a  
5 consumption adjustment mechanism.

6 I appreciate the opportunity to present Aqua's  
7 case to this Commission.

8 Q Thank you, Mr. Becker.

9 MS. SANFORD: The witness is available for  
10 cross.

11 MS. TOWNSEND: No questions from the Attorney  
12 General.

13 CROSS EXAMINATION BY MR. GRANTMYRE:

14 Q Mr. Becker, on --

15 COMMISSIONER GRAY: Thank you, sir.

16 MR. GRANTMYRE: I'm learning, slowly.

17 Q On page 3 of your testimony, line 18, you have  
18 the price of approximately 13 million for the 31  
19 greensand filters. Will you accept, subject to check,  
20 that that's an average of 14 -- I'm sorry -- 419,000 per  
21 filter?

22 A And I assume you mean page 3 of my rebuttal,  
23 correct?

24 Q Yes. I'm sorry.

1 A And I'm sorry. The average was?

2 Q 419,000, dividing 13 million by 31.

3 A The 13 million includes -- it's all filters.

4 It's the 80.

5 Q Oh, it's the 80?

6 A Yes.

7 Q Okay. I'm sorry. Now, on page 4 you're  
8 talking about modifying and upgrading your flushing  
9 program; is that correct?

10 A Can you point me to the area just so I don't  
11 have to read the whole --

12 Q Lines 10 through 13.

13 COMMISSIONER GRAY: What page?

14 MR. GRANTMYRE: On page 4.

15 A It mentions the tank cleaning program and the  
16 requirement to flush at least annually. Is that what  
17 you're referring to?

18 Q Well, it says you've initiated operating  
19 changes to better address water quality concerns; is that  
20 correct?

21 A We have, yes.

22 Q And will you admit that Aqua basically  
23 discontinued its regular flushing program from the years  
24 2006 through 2012?

1           A     No. I don't think that's appropriate. I don't  
2 think that's an appropriate conclusion.

3           Q     Well, how much flushing did you do? Didn't you  
4 go five, six years with a lot of systems and not flush it  
5 one time?

6           A     I don't have the exact details of that, but I  
7 know we've always had a flushing program. We've had  
8 flushing activities going on, you know, since I was here  
9 as a controller. It may not have been as rigorous of a  
10 program and established as we've just put in place, but  
11 we've always flushed.

12          Q     Well, during those years, how many times --  
13 let's see. You've got about 500 water systems or 700?

14          A     Seven hundred fifty (750).

15          Q     And when were you the Controller here or Chief  
16 Financial Officer?

17          A     About 2009 is when I started.

18          Q     And when did you go to Virginia?

19          A     2012.

20          Q     Okay. So out of your 750 water systems, on  
21 average during that year, how many would you actually  
22 flush, ballpark?

23          A     During that year?

24          Q     During 2006 through 2012, or during 2009

1 through 2012.

2 A I do not know the number. I do recall it being  
3 a discussion in our operational meetings, though, that  
4 there was flushing activities going on. We've never  
5 terminated the program.

6 Q Well, also during that period you discontinued  
7 -- when you acquired Heater, they had a four-person  
8 dedicated flushing group; is that correct?

9 A I assume -- I'll take your word for it on that,  
10 yes.

11 Q And that was in the central area?

12 A I cannot verify that either way.

13 Q And the head of that group taught the school at  
14 the McKimmon Center for the C Well and B Well classes on  
15 flushing?

16 A I take your word for that.

17 Q And isn't it true that Aqua disbanded that  
18 group and assigned all those people to other duties?

19 A I do not know if it was formally disbanded. I  
20 just know that we were performing flushing activities.  
21 How those were performed and who exactly did that, I  
22 don't know.

23 I did just confirm with Michael Melton, who's,  
24 I think, well known, you know, talking about some of the

1 flushing activities when we installed SeaQuest, so I know  
2 that throughout the periods we've been installing  
3 SeaQuest there was definitely flushing there as well as  
4 further proof.

5 Q Now, on page 5 of your testimony, you talk  
6 about a reduction in customer position statements; isn't  
7 that correct?

8 A Can you point to the line?

9 Q Well, basically lines 4 through 13.

10 A I'm sorry. What's the question?

11 Q Don't you talk about the customer comments  
12 there?

13 A Oh. In general, yes.

14 Q And the Public Staff asked you in a data  
15 request to please compare the customer water quality  
16 complaints in this rate case that you received during the  
17 pendency of this rate case and your last rate case, did  
18 they not?

19 A To compare specifically, I --

20 Q Well, to compare the number of water quality  
21 complaints during the months that this case was pending  
22 versus the months that your prior rate case was pending.

23 A I apologize. I do not recall that data request  
24 specifically.



1           Q     Now, why is it -- why cannot Aqua provide the  
2 customers a day certain that you will do the flushing  
3 rather than just say you'll do it Monday through Friday  
4 if the flushing is only going to take three or four  
5 hours?

6           A     I think a lot of times -- and we're always  
7 looking at refining, you know, there's changes going on  
8 and we're improving the flushing notification through our  
9 communications plan that's -- we're actually modifying  
10 some of those practices now, but in the past we've  
11 identified and have scheduled, generally scheduled, time  
12 periods when we would be flushing certain areas. And  
13 certain systems, as you know, we talk a lot about  
14 Bayleaf, but they're very large. A street or a couple  
15 streets it may be taking a few hours, but when you're  
16 talking about a whole system, I mean, that system, I  
17 think, takes two months, so it's kind of hard to know  
18 exactly where you're going to be, and then other  
19 emergencies come up and we might have to pull somebody to  
20 do something else.

21                   So I'd rather be a little bit more vague, at  
22 least initially that was the intent, being a little bit  
23 more vague, to cover a period of time rather than saying  
24 we're going to be there at 2:00 on Tuesday.

1 Q Well, on a small system -- I believe we were  
2 talking the other day about Upchurch, and your attorney  
3 objected because it was not part of the cross, but  
4 Upchurch has about 65 customers. Are you familiar with  
5 it?

6 A I'm vaguely familiar.

7 Q And it takes about two or three hours to flush  
8 that. Have you talked to any of the people?

9 A I trust your judgment on that.

10 Q Are you aware that Chuck Junis and I were  
11 onsite when they flushed it -- when Aqua flushed it one  
12 day?

13 A I was not aware of that.

14 Q And why on -- how many standalone systems with  
15 just one subdivision, just ballpark -- aren't probably  
16 500 of your systems relatively small?

17 A Most of our systems are relatively small, yes.

18 Q And on a system like that, that only takes two  
19 or three hours to flush, why do you have to give the  
20 notice that it will take an entire week, you want to  
21 reserve an entire week? Can't you specify the date and  
22 times so that the people could do their laundry when they  
23 need to?

24 A Sure. And I think that's one of the

1 improvements that we're working on doing. We talked -- I  
2 think in my direct testimony we talked a little bit about  
3 the focus group that we're doing for Bayleaf. And the  
4 feedback from customers is so important. Some people  
5 want to be notified a week in advance so they can  
6 properly plan. Some people think that that's too early  
7 because they forget then. We can completely refine it.  
8 And I do -- I agree, we could make -- a shorter window of  
9 time might be more appropriate.

10 Q I believe you testified now that you really  
11 don't have any people dedicated full time to flushing; is  
12 that correct?

13 A We use a team approach, so they are -- usually  
14 the utility technicians are assigned to the different  
15 areas. They are responsible for flushing their systems  
16 because they're the ones who are going to know it best.  
17 And that's a recent reassignment pretty much in 2018.

18 Q Okay. So they have no other duties except  
19 flushing, or they have a multitude of duties?

20 A They're the utility techs responsible for  
21 maintaining the collection system and a lot of the  
22 repairs. They also handle the flushing.

23 Q Okay. So that's solely dedicated to flushing?

24 A Not solely dedicated to flushing, no.

1 Q And --

2 MR. GRANTMYRE: Let's hand this out. We're  
3 going to hand out two exhibits. The first one states  
4 Aqua of North Carolina's Response to Customer Comments  
5 from Raleigh Public Hearing in Sub 363, and we would  
6 request that be identified as Becker -- Public Staff  
7 Becker Rebuttal Cross Exam 1. And then we have an Order  
8 dated May 2, 2014 in Sub 363, and we have certain pages.  
9 All of these are on the Commission's website, so we're  
10 only doing part of it. We would request that that be  
11 identified as Becker Cross Exam Exhibit 2.

12 COMMISSIONER BROWN-BLAND: All right. The one  
13 with the file stamp date in December is marked Public  
14 Staff Becker Rebuttal Cross Exam Exhibit 1, and the one  
15 with the handwriting May 2nd date on it is Public Staff  
16 Becker Rebuttal Cross Examination Exhibit 2.

17 (Whereupon, Public Staff Becker  
18 Rebuttal Cross Exam Exhibits 1-2  
19 were marked for identification.)

20 Q Now, do you recognize this as the report on the  
21 Raleigh hearing in the Sub 363 case which I believe the  
22 hearing was December -- or filed on December 2013?

23 A Which one are you referring to?

24 Q Number 1, Aqua's Response to Customer Comments.

1           A        Would it be okay if I got a pencil just so I  
2       can track this?

3           Q        Yeah.

4           A        I'm sorry.  Could you repeat that, Mr.  
5       Grantmyre?

6           Q        I refer you to the one that says the Response  
7       to the Customer Comments at the Raleigh Hearing, which is  
8       Cross Exam Exhibit 1.

9           A        Okay.

10          Q        And I refer you to page 5 at the bottom.  Could  
11       you please read the highlighted -- and this was a report  
12       filed by Aqua, correct?

13          A        It says Aqua North Carolina's Response, so yes.

14          Q        Okay.  Could you please read the paragraph  
15       beginning on the bottom of page 5 and the top of page 6?

16          A        Sure.  "Though SeaQuest is thought to be a  
17       superior product, its impact on discolored water is not  
18       'instantaneous.'  It takes time of the SeaQuest to  
19       dissolve all of the buildup in the mains, distribution  
20       lines, and customer service lines: this is a long-term  
21       process.  SeaQuest will keep the dissolved iron and  
22       manganese colorless from the well source and dissolve it  
23       at the well when it is added.  However, it will take  
24       several months - up to a year - for the SeaQuest to

1 dissolve the buildup that has accumulated on the inside  
2 of the pipes, tanks, valves, etc. The manufacturer  
3 recommends several flushings at intervals, such as 30  
4 days, 60 days, 90 days, and 120 days, if possible. Aqua  
5 uses sequestration/additives to treat approximately 25  
6 percent of its wells at an annual cost of approximately  
7 \$77,000."

8 Q And don't you have about 1,300 wells, give or  
9 take?

10 A Approximately, yes.

11 Q Okay.

12 A Points of entry.

13 Q Okay. So you feed -- sequestering it  
14 approximately 25 percent. Now, with regard to the Cross  
15 Exam Exhibit 2, which is the Order dated May 2, 2014, I  
16 turn you to the -- these are excerpts, but the page that  
17 has at the bottom 23 which is from the Commission Order,  
18 and the top of 24 which is highlighted. Now, if you  
19 would -- starting on page 24, about halfway down the  
20 first paragraph, it starts "That is, it will take time  
21 for SeaQuest to dissolve," could you please read that  
22 into the record to the end of the paragraph?

23 A "That is, it will take time for the SeaQuest to  
24 dissolve all of the buildup in the mains, distribution

1 lines, and customer service lines. In its reports, Aqua  
2 commented that this type of treatment is a long-term  
3 process. It will take several months or up to a year for  
4 the SeaQuest to dissolve the buildup that has accumulated  
5 on the inside of the pipes, tanks, valves, and other  
6 system infrastructure. According to Aqua, the  
7 manufacturer of SeaQuest recommends several flushings at  
8 intervals such as 30 days, 60 days, 90 days, and 120  
9 days, if possible."

10 Q So basically, the Commission, in its evidence  
11 and conclusions, was basically summarizing what Aqua had  
12 reported in its report or response to the customers; is  
13 that correct?

14 A I assume the Order came after this. Yes, I  
15 would assume so.

16 MR. GRANTMYRE: We would ask that this next  
17 exhibit be identified as Public Staff Becker Rebuttal  
18 Cross Exam Exhibit 3. And I would point out there are --  
19 in order to get us through this exhibit, there are  
20 handwritten page numbers at the top right-hand corner so  
21 we could move through it more quickly. These are numbers  
22 I inserted just to facilitate us going through the  
23 document.

24 COMMISSIONER BROWN-BLAND: All right. This

1 exhibit is identified as Public Staff Becker Rebuttal  
2 Cross Exam Exhibit 3.

3 (Whereupon, Public Staff Becker  
4 Rebuttal Cross Exam Exhibit 3 was  
5 marked for identification.)

6 Q Now, I call you to the first page. Do you  
7 agree that this is on Aqua letterhead?

8 A I do.

9 Q And it's dated June 27, 2018?

10 A Yes.

11 Q And it's your response to a Notice of  
12 Deficiency or at least a quarterly upgrade for iron and  
13 manganese to the Public Water Supply Section; is that  
14 correct?

15 A Yes.

16 Q And this first one -- and I would represent to  
17 you that this is a group of these responses alphabetical  
18 from Avocet through Eagle Creek. The one missing is  
19 Bayleaf which was an exhibit the other day. Anyway,  
20 we'll move on, on that.

21 But I turn you to page 2 on Avocet. And on the  
22 far left side it says Avocet Well Number 1, doesn't it?

23 A It does.

24 Q Could you read when -- the completed activities



1 when Aqua started adding SeaQuest?

2 A Looks like we started it in September of 2015.

3 Q And then you list that you flushed the system  
4 in April of 2017.

5 A Is that a question?

6 Q Is that correct? Is that what it says?

7 A That's what it says, yes.

8 Q Why did you wait approximately 18 months, when  
9 you were supposed to do it 30 days, 60 days, 90 days?

10 A I can't answer that specifically for Avocet. I  
11 do know that it is, I think, as we previously mentioned,  
12 if possible. And I don't know the specific parameters of  
13 this system, but if you do not have the capacity, if you  
14 do not have the psi for whatever reason, you may not be  
15 able to flush at that 30, 60, 90-day period. I don't --  
16 I'm assuming that's the first flushing. I'm not  
17 positive, but I'm assuming that would be.

18 Q Well, this is a document that Aqua prepared and  
19 filed with Public Water Supply. You don't suppose that  
20 Aqua filed an incomplete report, do you?

21 A I wouldn't assume so, no.

22 Q Now, have you ever sat and watched a system be  
23 flushed with a hydro tank?

24 A No.

1           Q     Well, are you aware the day that Charles Junis  
2     and I watched Upchurch be flushed, that they would use  
3     the water in the hydro tank to do a flushing of, say, 15  
4     to 20 minutes and then stop and refill the tank? Is that  
5     the process that Aqua would use to move on to another  
6     blowoff?

7           A     I don't know if that's the standard process or  
8     what was used there. I can't confirm either.

9           Q     Well, the hydro tank is the pressure tank that  
10    puts the pressure on the water, isn't it?

11          A     Yes.

12          Q     So by refilling the tank and then flushing  
13    again, you could minimize the effect of possibly not  
14    having total water supply to flush just from the wells;  
15    isn't that correct?

16          A     I would agree if there's a hydro tank on that  
17    system and on that well, yes.

18          Q     Well, you either have a hydro tank on a system  
19    or an elevated tank, don't you?

20          A     I don't believe we have a tank on every -- on  
21    every well.

22          Q     Not on every well, but on every system.

23          A     I can't confirm that we do.

24          Q     Now, moving on to page 7 or page 6, isn't --

1 that is Belle Ridge Subdivision, correct?

2 A Correct.

3 Q And moving to page 7, Belle Ridge Well Number  
4 2, could you please read into the record the date you  
5 started SeaQuest?

6 A August of 2015.

7 Q And what is the next line when the system was  
8 flushed?

9 A It shows June 2017.

10 Q Would you agree that that's approximately 20  
11 months passed before you flushed the system?

12 A I would agree.

13 Q Now, would you agree that the purpose --  
14 SeaQuest breaks loose the accumulated sediment in the  
15 mains. Isn't that what was said in your response?

16 A I'm sorry. Could you repeat that?

17 Q Isn't it true that SeaQuest, as a type of  
18 phosphate or polyphosphate, breaks loose accumulated iron  
19 and manganese sediment that has attached to the interior  
20 of the mains? Isn't that correct?

21 A Over time, yes.

22 Q And if you're not flushing and it's breaking  
23 loose, that sediment is going to the customers, isn't it?

24 A It would be. And I'd like to point out in

1 Belle Ridge, your example there, you know, in the  
2 comments below that, we do not run that well where we put  
3 the SeaQuest on. We rely more on Well Number 1. So the  
4 volume of capacity coming from some of these wells that  
5 are -- that don't have filtration, we do try to minimize  
6 and use only for when we have capacity needs.

7 Q Now, next -- and next alphabetically, and these  
8 are as you filed with DENR, Branston Subdivision. That  
9 is one of your water systems in Wake County, is it not?

10 A It is.

11 Q Now, going to page number 12, when did you  
12 start adding SeaQuest on that system?

13 A Looks like July of 2013.

14 Q And when did you flush it, according to this  
15 report?

16 A It says here September of 2016.

17 Q So in that case it was over three years before  
18 you flushed the system; is that correct?

19 A Yes.

20 Q And on the column on the left, it says average  
21 quarterly run time 3.75; is that correct?

22 A Yes.

23 Q And when you report like that, that's really  
24 hours per day, isn't it?

1           A     Yes, it is. I believe so. I can't -- I  
2 believe it is.

3           Q     Now, the next alphabetically that was filed is  
4 on page 15, Briarwood/Kildaire Subdivision; is that  
5 correct?

6           A     Bear with me for just a moment. That is  
7 Briarwood/Kildaire Subdivision, correct.

8           Q     And when was that SeaQuest added?

9           A     June of 2015.

10          Q     And it was two years later before, in June of  
11 2017, before the system was flushed?

12          A     Yes. And the average quarterly run time I had  
13 zero hours per day.

14          Q     But that would also mean that there is another  
15 well pumping. Isn't it true if that well doesn't run,  
16 then there's another well pumping; is that correct?

17          A     Yes, but these NODs are site specific.

18          Q     Okay. Now, the next one on page 20, Cotesworth  
19 Down/Kensington Manor, on page 21 it lists Cotesworth  
20 Down Well Number 2. When did Aqua start using SeaQuest?

21          A     February of 2014.

22          Q     And two bullets down, when did Aqua flush the  
23 system?

24          A     April of 2017.

1 Q So you will accept that that is approximately  
2 38 months afterwards or three years and two months?

3 A A little more than three years, sure.

4 Q And as you could see, average quarterly run  
5 time, that was 6.38 hours per day.

6 A Yes.

7 Q So that well was running, but yet Aqua, is it  
8 true -- okay. So you agree that that well was running?

9 A Yes.

10 Q Now, on page 24, that's the cover for Duncan  
11 Ridge; is that correct?

12 A Yes.

13 Q And moving over to page 25, Duncan Ridge Well  
14 Number 5, when did you start using SeaQuest on that well?

15 A August of 2014.

16 Q And you started flushing it or it says flushed  
17 on April of 2017?

18 A That's what it says. It also says there was an  
19 auto blowoff installed in March, which is an automatic  
20 self-flushing where it's not a manual process. And in  
21 general, I see that there's some space between the  
22 flushing period and when SeaQuest was installed, but,  
23 again, as you know, there are many factors that go into  
24 that. So I -- I'm sorry. Continue.

1 Q Well, would you care to explain? You started  
2 feeding SeaQuest in August 2017, and then you installed  
3 an automatic blowoff two and a half years later, and then  
4 you actually flushed the system in April of 2017; is that  
5 correct?

6 A Yes. And all I meant is this identifies the  
7 activities. It doesn't necessarily mean that we don't  
8 already have automatic blowoffs in some of these systems  
9 we've already talked about. It just wasn't installed at  
10 a period of time.

11 Q Well, we're really focusing not on automatic  
12 blowoffs. Aren't we focusing on when this system was  
13 flushed, and do you agree that this report that you made  
14 to DENR said it was flushed in April 2017?

15 A I do.

16 Q And on the left-hand side, average quarterly  
17 run time 1.28 hours per day, so this well was an active  
18 well?

19 A That's correct. It would be mixing with the  
20 other wells in the system.

21 Q We finally got to Eagle Creek, so --

22 A Thank you.

23 Q -- page 28. And on page 29 would you agree  
24 Eagle Creek Well Number 3, that you started using

1 SeaQuest in 2015, September 2015?

2 A Yes, yes.

3 Q And it was about 18 months later that -- in  
4 April of 2017 that the system was flushed?

5 A Yes.

6 Q Now, why did not -- why did Aqua wait so long,  
7 after they reported to the Commission in 2014, that when  
8 you add SeaQuest it should be flushed every -- at the 30-  
9 day, 60-day, and 90-day intervals and sometimes waited  
10 well in excess of a year, two years, and three years?

11 A Again, I can't specifically say for each system  
12 why there was a time period between that flush and the  
13 installation of SeaQuest. It's a recommended, and the  
14 30, 60, 90 is the aggressive approach that is recommended  
15 by SeaQuest, but I think there are -- I believe there are  
16 other options. And, again, it depends on what the system  
17 is able to provide.

18 Q When you say "other options," what are the  
19 other options?

20 A Different time periods. The aggressive is that  
21 30, 60, 90, but there are longer time periods.

22 Q Is that what you got from SeaQuest or that's  
23 just something --

24 A That's what I've been told by my engineers.



1 Q Okay. What did the other -- these engineers  
2 tell you?

3 A That 30, 60, 90 is the recommended aggressive  
4 approach, that it's based on -- just as I had previously  
5 said, it's based on other specifics within the system and  
6 it doesn't have to be at that interval. That's the  
7 recommended aggressive approach to quickly flush it out,  
8 but it doesn't have to be that.

9 Q Well, which one of your engineers told you it  
10 should be three years? Wasn't one of these three years?

11 A I never said that an engineer said it should be  
12 three years.

13 Q Oh, you said -- okay. Well, should the  
14 Commission require some follow-up reporting from Aqua, do  
15 you believe it would be appropriate for Aqua to report in  
16 the quarterly or bimonthly reports all the systems that  
17 Aqua has flushed during that period, giving the date that  
18 you flushed and also the type notice you gave, whether it  
19 was a week or a specific date, so that we could have  
20 better information and the Commission would have it  
21 available if customers were to complain about flushing or  
22 lack thereof or discolored water? Wouldn't that be  
23 helpful information to the Public Staff, to the  
24 Commission?

1           A       Well, we already fill out these quarterly NOD  
2 reports for DEQ, and these are the systems that they have  
3 identified issues with -- specifically, not systems, but  
4 points of entry that have those issues. In our water  
5 quality plan, you know, we are adhering to this annual  
6 flushing for the Group 1s, others as needed, but we are  
7 putting a lot more rigor into this, and if the Commission  
8 chose that they would like to see flushing -- more  
9 flushing reporting, that's, you know, up to their  
10 discretion. We would adhere to whatever was decided and  
11 ordered.

12           Q       But isn't it true that you've only really  
13 upgraded your flushing programs starting in sometime in  
14 2017?

15           A       That's when the water quality plan was really  
16 initiated, yes. And that's my program. I can't speak to  
17 the rigor of involvement from prior flushing activities,  
18 but, again, I reaffirm the fact that we have been  
19 flushing.

20           Q       Now, on page 19 and carrying over into page 20,  
21 the entire page, you state you do not want to provide the  
22 Public Staff copies of communications between Aqua and  
23 Public Water Supply unless it's a Commission directive;  
24 is that correct?

1 A I'm sorry. Page 19 in my rebuttal.

2 Q I'm sorry. I'm sorry. Page 7, beginning at  
3 the bottom, carrying over to all of page 8 and also most  
4 of page 9.

5 A Okay. I'm sorry. Can you repeat the question?  
6 I was just trying to reread this question.

7 Q The question was, isn't this your response to  
8 Mr. Junis' request that you provide the Public Staff  
9 communications between the Company and Public Water  
10 Supply about water quality issues?

11 A This is my testimony.

12 Q Okay. And you said it's unnecessary. How  
13 difficult is it for Aqua, when it gets a letter or an  
14 email or an NOD or an NOV from Public Water Supply or the  
15 Division of Water Resources which is the sewer group, to  
16 simply put it in a file, electronic file, and every two  
17 months just send whatever communications are in that file  
18 to the Public Staff? Is that -- how difficult could that  
19 be? Is that difficult?

20 A Well, as I mention in here, it's onerous. It's  
21 not just me or one individual or my compliance manager.  
22 It's -- you know, our guys in the field are having  
23 correspondence with the other DEQ field agents. It would  
24 permeate throughout my organization. You know, our guys

1 are documenting and recording work orders and responses  
2 and closing out all that stuff in the field, and this  
3 would be one more level of communication, especially  
4 phone calls and things like that, that may not be  
5 documented. So I think it's an onerous requirement.

6 Q Well, you understand that this requirement was  
7 in your 2014 Rate Order? And I'll refer you back to  
8 Public Staff Becker Rebuttal Cross Exam 2. And on page  
9 88 of that Order --

10 A Hold on one moment. Do I have this?

11 Q Yes. It's Cross Exam Exhibit 2. It says Order  
12 dated May 2, 2014.

13 A You said page 88, though.

14 Q Yeah. Page numbered. It's not 88. It's -- 88  
15 is at the bottom.

16 A I don't know if I have that.

17 MR. GRANTMYRE: May I approach?

18 MS. SANFORD: Please.

19 MR. GRANTMYRE: Trying to save paper.

20 A Oh, I'm sorry. It wasn't -- okay.

21 Q Okay. Here we go.

22 A Thank you.

23 Q Can you please read into the record ordering --  
24 you understand these are ordering paragraphs. We show

1 that on page 86 it begins the ordering paragraphs.

2 A Okay. I agree.

3 Q And paragraph 12, could you read ordering  
4 paragraph 12?

5 A "That Aqua shall convey conversations with,  
6 reports to, and the recommendations of DENR to the Public  
7 Staff regarding the water quality concerns being  
8 evaluated and addressed in Aqua's systems in a timely  
9 manner. Such communication shall be in a written format  
10 and shall be provided at a minimum on a bimonthly basis.  
11 Aqua shall provide the Public Staff copies of: A, Aqua's  
12 reports and letters to DENR concerning water quality  
13 concerns in its systems; B, responses from DENR  
14 concerning reports, letters, or other verbal or written  
15 communication received from Aqua; C, DENR's specific  
16 recommendations to Aqua by system concerning each of the  
17 water quality concerns being evaluated by DENR."

18 Q Now, you understand this was a settled case  
19 with a Stipulation, this Sub 363, correct?

20 A That's what I understand, yes.

21 Q And paragraph 12 was a paragraph added by the  
22 Commission that was not in the Joint Proposed Order. Do  
23 you understand that?

24 A I did not know that.

1 Q And isn't it true that Aqua did not send any of  
2 these correspondence to the Public Staff until either  
3 late 2016 or 2017, several years after the Commission's  
4 May 2, 2014 Order?

5 A I believe that is accurate. I started in  
6 August of 2016. And, in fact, I believe Mr. Grantmyre,  
7 it was you that had mentioned to me that we were required  
8 to do so, at which time I had requested Robyn Lambeth to  
9 make all copies of reports that had been filed and send  
10 them over to you.

11 Q Now, this Order requires convey conversations  
12 between DENR and Aqua, and there are several type of  
13 conversations. As you mentioned, verbal conversations.  
14 You have a telephone call or you're out in the field and  
15 you have a conversation. And what you're saying is  
16 onerous is doing a memorandum of that conversation and  
17 recording it; isn't that what you're saying?

18 A I am.

19 Q But if DENR sends you a Notice of Violation, an  
20 NOD, an email, or a letter about water quality issues,  
21 it's not very complicated or difficult for the Company to  
22 save those correspondence and, vice versa, Aqua to DENR,  
23 and send that to the Public Staff so the Public Staff  
24 will know what's going on. Is it difficult to do that?

1           A       For me personally, again, it's more of my  
2 organization. I do -- I am not familiar and aware of all  
3 the conversations that are had by my team, from my  
4 director of ops, to the area managers, to the  
5 supervisors, to the actual field operators. That would  
6 be extremely onerous, in my opinion.

7           Q       To simply make copies of all correspondence  
8 with Public Water Supply on water quality, save it in a  
9 -- if you don't know, I'm technologically challenged --

10          A       Ditto.

11          Q       -- so I don't even know what an electronic file  
12 is, but there are people at this table that do know and  
13 they say it's simple, that even old people like me could  
14 learn how to do it.

15          A       Is that a question?

16          Q       Well, I'm working on it. I'm working on it.  
17 But the people -- you don't have any 73-year old people  
18 working for you, do you?

19                 MS. SANFORD: Don't look at me.

20                 THE WITNESS: Bob, are you pretty close?

21                 MR. GRANTMYRE: We'll stipulate that Ms.  
22 Sanford is only 39.

23                 THE WITNESS: I would agree. I would agree  
24 with your stipulation.

1 Q I mean, there must be --

2 COMMISSIONER BROWN-BLAND: That's right. You  
3 remain under oath.

4 MR. GRANTMYRE: I'm not under oath.

5 THE WITNESS: I withdraw my response.

6 Q You know, most of your people know how to work  
7 computers, don't they?

8 A Most do, yes.

9 Q And they know how to -- there must be some way  
10 you click and put it in an electronic file, isn't there?

11 A Yes. My staff. And I'm particularly thinking  
12 of a lot of my folks who are in the field who don't come  
13 into the office. They may not see their supervisor but  
14 once a week. You know, they're out there doing their  
15 routes. They don't come back to download and to make  
16 copies and to print.

17 Q I mean --

18 A It's challenging enough to get them to do their  
19 timesheets and get them in on time.

20 Q I'm aware of that.

21 A Yeah.

22 Q But most of the DENR correspondence is not to  
23 your operators in the field; it's to your people in the  
24 office, to you, to your director of operations, to your



1 regional managers, to your supervisors. They all know  
2 how to work a computer and can stick it in an electronic  
3 file and send it to the Public Staff, can't they?

4 A I hope they know how to use a computer, yes.

5 Q And now one thing Mr. Junis has added, which is  
6 not within the existing paragraph 12, is he also wants  
7 the written -- the communications between the Wastewater  
8 Division of Water Resources and Aqua, and is there any  
9 reason why you cannot send those communications?

10 A I believe most of our communications with DEQ  
11 are public information and could be easily obtained  
12 through the Public Staff or their request with DEQ.

13 Q Okay. But it's too much trouble, then, for you  
14 to put them in a file and send them to the Public Staff  
15 so we could keep up better with what is going on with  
16 your systems? Isn't that more efficient?

17 A I'm sorry. What's the question?

18 Q Isn't it more efficient than we have to chase  
19 down through all the regional offices what's going on  
20 with your systems?

21 A I would say I'd have to do the same chasing  
22 down.

23 Q Well, these are communications from Aqua to  
24 Division of Water Resources, which you have a record of,

1 I hope, and communications from them, written  
2 communications from them back to you, so you already have  
3 it. And if all your people are told they have to send it  
4 to headquarters bimonthly or quarterly, it seems pretty  
5 simple to me.

6 A It may. This just adds to the additional  
7 reporting that we're required to do. It would just take  
8 time and resources. And, again, if the Commission so  
9 ordered that, I would be more aware of it. I will say I  
10 was not aware of this initially. And if that was the  
11 requirement, I would adhere to it.

12 Q And if we had something like that, the Public  
13 Staff would be better apprised about the \$389,000 of  
14 wastewater fines during the test year and what was  
15 leading up to that?

16 A If they needed to know that. That's not --  
17 that's not a cost that gets conveyed or passed on to the  
18 customers.

19 Q Well, there was talk about cleanup cost for the  
20 sludge that is in your test year expenses and whether or  
21 not that should be borne by the customers; isn't that  
22 correct? Do you remember that discussion?

23 A But I think that sludge was going to be hauled  
24 one way or another, right? It was either hauled in an

1 emergency from it being overflowed or it would have been  
2 hauled at another time. And I think the fines that we  
3 had talked about with the Attorney General's Office were  
4 unique situations, two of which were hurricane related.

5 Q But as we talked about, the one overflow was  
6 six months after the hurricane, wasn't it?

7 A Right. And we talked about the challenge in  
8 getting the vendors during that time, a vendor who was  
9 actually capable to be able to do the repairs that were  
10 necessary.

11 Q Now, going back to Cross Exam Exhibit Number 2,  
12 this Order dated May 2, 2014, we were talking about  
13 ordering paragraph 12, but the paragraph above it on page  
14 88 -- page number 88, which is an excerpt, can you please  
15 read the highlighted section beginning on the fourth  
16 line?

17 A "If a particular secondary water quality  
18 concern has affected or is affecting 10 percent of the  
19 customers in an individual subdivision service area or 25  
20 billing customers, whichever is less, the customers  
21 affected and the estimated expenditures that are  
22 necessary to eradicate the secondary water quality issues  
23 through the use of projects that are eligible for  
24 recovery through the WSIC shall be detailed in the

1 written report."

2 Q Now, wasn't there comments in the public  
3 hearing about persons calling, or at least Becky Daniel  
4 on at least one occasion, where her call was not being  
5 recorded, and in Mr. Junis' testimony about a number of  
6 calls, I believe primarily after-hour calls, that were  
7 not included in your reports to the Commission as the  
8 Commission had ordered? Do you remember that testimony?

9 A I do.

10 Q Why is it that those calls are not included in  
11 your reports?

12 A We have a business hour call center that covers  
13 all eight states, and one is in Cary, North Carolina, one  
14 is in Kankakee, Illinois, and we have some others up in  
15 Pennsylvania. So business hours when you call, that  
16 handles the majority of the calls are going to be billing  
17 type customer related issues. After hours, for prudence  
18 and cost effectiveness, we outsource our after-hours call  
19 response, and that is an emergency response team put in  
20 place to handle calls for emergencies only. Even when  
21 you call and it says that if this is an emergency; if  
22 it's not an emergency please call back during business  
23 hours, very different entity that we outsource.

24 They do not have the same access as our CSRs,

1 our customer service reps, that answer calls during the  
2 day. They don't have the same access to our field data,  
3 our field management system, our billing records. They  
4 are meant to handle emergency calls. And the way that  
5 they work is they take the call and they have direct line  
6 into the on-call operators. We identify with an on-call  
7 rotation plan specific names, numbers of people in  
8 different areas who they intend to call, and they will  
9 call them directly. Well, they'll get the call, it's  
10 either an emergency or it's not. If we need somebody to  
11 get out there right away, they call them.

12 They don't have the tracking in place. They  
13 don't have the reporting that's systematic and similar to  
14 what we have during the day, but -- and it's done for  
15 prudence.

16 Now, we could potentially put that into place,  
17 but it would be additional and incremental cost to try to  
18 get them to handle things much more similarly. We have  
19 to give them security and access, so there's a lot of  
20 things that go along with that, which goes along, again,  
21 with the price.

22 Up till now, you know, we've had these  
23 discussions with the Public Staff, where it's come out  
24 that there's belief that we're underreporting for these

1 reports. And it's not intentional. We use what we call  
2 a Lab D work order, which is what we use to send a  
3 technician out to respond to a -- typically, a water  
4 quality call or a low pressure or no water. And we have  
5 that tracking. So it's representative of the water  
6 quality issues.

7           If you have an emergency water quality call and  
8 you happen to call in at night, we don't have it tracked  
9 the same way, so when it was -- when this formatting was  
10 created after the last rate case, I can only assume Mr.  
11 Roberts, who was the President at the time, put that into  
12 place because that was the easiest reporting. We have a  
13 lot of reports around that kind of data. We don't get  
14 the similar type of data from our after-hours call center  
15 that corresponds with that. So it wasn't an intentional  
16 disregard. It's just that it wasn't used. The date,  
17 time, Lab Ds were used as a representative sample of  
18 those calls.

19           Q     But the bottom line is the Commission did not  
20 specify only business hour complaints. Do you believe  
21 the intent of the Commission was all complaints, whether  
22 it was during business hours or after hours?

23           A     Well, yes, I do. And I will tell you we have  
24 recently changed our -- we're doing a pilot right now

1 where we are trying to give the after-hours call center  
2 reps -- not trying -- we have given them the ability  
3 through communications, we're doing some workarounds, to  
4 create a Lab D for all the calls, even at night.

5 Q When do you expect that to be completed?

6 A It's -- I think it goes in place here shortly,  
7 if it's not already. We've already done some training  
8 with our third-party contractor. And this is a North  
9 Carolina specific project that we are doing. It's not  
10 consistent for all eight states.

11 Q So can we say that the North Carolina  
12 Commission was ahead of the rest in requiring advanced  
13 reporting?

14 A In relation to water quality because of the  
15 nature of the water quality challenges that we have here  
16 in North Carolina. It's never been a request for anybody  
17 in the past to try to do this reporting, that I'm  
18 familiar with anyway. But the nature of the water  
19 quality challenges being 750 systems, 1,400 groundwater  
20 wells, there's a lot of opportunity to make things  
21 better.

22 Q Now, during the public hearing there was  
23 customer complaints about an automated -- the customer  
24 would call in and they'd get a recording or some type of

1 device, voice device, saying it's already been reported.  
2 Have you -- and I believe you said somewhere that you've  
3 done away with that; is that correct?

4 A That's correct.

5 Q And, also, there was talks about or testimony  
6 that a customer, they get a notice based on the zip code  
7 and like a boil water notice or whatever for the entire  
8 zip code. Have you done away with that?

9 A I'm not exactly sure what -- are you talking  
10 about the Aqua alerts or are you talking about the IVR  
11 system that was in --

12 Q I'm not sure. They testified that they would  
13 get a notice, such as a boil water notice, and they were  
14 told by the Aqua -- whoever they talked to on the  
15 telephone at the call center, it goes out to the entire  
16 zip code. And the Bayleaf zip code has hundreds of -- or  
17 several hundred subdivisions in that, and in this case  
18 the Coachmans Trail people got the notice and it was, I  
19 believe, Hunters Landing, a totally separate, and there  
20 was talk -- testimony that she was on hold 20 minutes on  
21 the phone before she found out that it wasn't even her  
22 subdivision. Now, have you worked on a process whereby  
23 you could more pinpoint the outage area or the area so  
24 that customers are not getting notices such as boil water



1 or whatever the notice is that has nothing to do with  
2 that customer?

3 A So your question was have we worked on a  
4 process where we could pinpoint, more accurately  
5 targeting the folks who may have a boil water notice or a  
6 pressure issue from work in the field. So I think you  
7 actually have two issues there. One is our Aqua alert  
8 system. We can geo-fence. We can target either by zip  
9 code, we can target by street. We can draw a ring around  
10 the area.

11 And I believe the one issue that was brought up  
12 during the Raleigh customer hearing was, and I don't  
13 recall if it was Ms. Daniel in particular, but received  
14 an error in a boil water notice. What that was is we did  
15 have a technician who sent out the boil water notice to  
16 the wrong -- not the wrong area, but a bigger area than  
17 it needed to be. We rescinded that, I think, within I  
18 want to say approximately an hour. We rescinded it and  
19 then issued the correct one. So that was human error.

20 But the system itself, we are able -- we're  
21 usually -- we issue a lot of these special pressure  
22 advisories, where an area that has low pressure, if  
23 there's a main break or things like that, we are usually  
24 really on target. Not a lot of errors in that case. So

1 are we improving that process? No. Do they -- because  
2 it's a very targeted thing and that was just a human  
3 error at that time.

4 Now, the other thing I believe you were talking  
5 about was the zip code. There was an opportunity in the  
6 IVR system where you could enter in a zip code to  
7 identify if you have a main break.

8 Q What --

9 A I'm sorry.

10 Q What is the IVR system? Can you clarify that?  
11 I don't mean to interrupt you, but I don't know what an  
12 IVR system is.

13 A I think I'm close --

14 Q Okay.

15 A -- Interactive Voice Response. So it's when  
16 you feed in information and it helps the system identify  
17 who you are and --

18 Q Okay.

19 A -- it asks for your account number and things  
20 like that. And it helps track you down, so by the time  
21 you get to the CSR, there's already information available  
22 of who is calling in, so it will even look at the phone  
23 number you're calling in from so the account information  
24 can be pulled up.

1 Q For those old people like me, what is a CSR?

2 A Customer Service Rep.

3 Q Okay. Go ahead. I apologize. I'm sorry.

4 A In that IVR system, and this was part of what  
5 we took down when you asked in that previous question,  
6 you could put in your zip code, and there's multiple  
7 systems in a zip code, so you -- if there was an outage  
8 in a zip code, it might erroneously tell you that this  
9 was being worked on and we're aware of it. So that has  
10 been removed.

11 Q Okay. You said -- I forget exactly in what  
12 context - it was part of that answer -- we can do this.  
13 Okay. I'll withdraw the question.

14 But the question is, will it actually be moving  
15 from what they can do to what they actually do and serve  
16 the customers or improve the service to the customers?

17 A That's a very vague question.

18 Q Okay. I'll withdraw it, then. Now, on the top  
19 of page 11 of your rebuttal testimony, you talk about,  
20 you know, willful failure by the Company would not exist.  
21 Now, the way these semiannual reports are done, isn't it  
22 true that Aqua really assembles all the information,  
23 correct?

24 A We do, and we introduce basically a draft to

1 the Public Staff, and then the Public Staff reviews and  
2 contributes as well, yes.

3 Q And the Public Staff reviews it, makes some  
4 comments, we will tell you that we want this inserted or  
5 that inserted. The Public Staff may ask you for more  
6 information about whatever incident or some report, and  
7 the Public Staff will also tell you at times that you  
8 don't meet the complaint criteria, that's it's not part  
9 of -- it's not reportable because you're not meeting the  
10 required criteria. Are you aware of all this, the way it  
11 works like that?

12 A It's a very collaborative process. It's  
13 something that's worked well.

14 Q But you would agree that if the Public Staff  
15 had complete complaint information on water quality, it  
16 would facilitate the reporting, you know, after-hour  
17 calls?

18 A I think you'll get more data from having the  
19 after-hour calls and, you know, that is something that  
20 we, again, will be -- not just can, but we will be  
21 putting into place.

22 MR. GRANTMYRE: We would ask that this next one  
23 be identified as Becker -- Public Staff Becker Cross Exam  
24 Exhibit Number 4, and this is a Response to Public Staff

1 Engineering Data Request No. 62.

2 MS. SANFORD: Excuse me. Which exhibit number  
3 was this?

4 MR. GRANTMYRE: Four (4), I hope.

5 COMMISSIONER BROWN-BLAND: This will be  
6 identified as Public Staff Becker Cross Examination  
7 Exhibit Number 4, and it's the Response to Public Staff  
8 Engineering Data Request No. 62.

9 (Whereupon, Public Staff Becker  
10 Rebuttal Cross Exam Exhibit 4 was  
11 marked for identification.)

12 Q Now, I refer you to page 3 of the data request.  
13 And could you please read into the record the question  
14 and answer for number 7?

15 A "Please provide for each person employed as the  
16 Aqua central area manager from" -- June 1st through --  
17 I'm sorry -- "June 1, 2004, to date, the name of the  
18 person, the date that person became the Aqua central area  
19 manager, and the date that person was no longer employed  
20 as the Aqua central area manager."

21 Q And what was the answer?

22 A I don't believe we did provide an answer to  
23 this one.

24 Q But you said that --

1           A       We prov--- I'm sorry. "Objection. The  
2 question appears to have no discernable relationship to  
3 Mr. Becker's rebuttal testimony."

4           Q       And could you please read the question and  
5 answer on number 8?

6           A       "Please provide for each person employed as the  
7 Aqua statewide director of operations from June 1, 2004  
8 to date the name of the person, the date that person  
9 became the Aqua statewide director of operations, and the  
10 date the person was no longer employed as the Aqua  
11 statewide director of operations."

12          Q       And what was the answer?

13          A       "Objection. The question appears to have no  
14 discernable relationship to Mr. Becker's" -- rebuttable  
15 testimony --

16          Q       Now --

17          A       -- or "rebuttal testimony."

18          Q       -- to be clear, the Aqua central area manager,  
19 that is the position that supervises the  
20 Raleigh/Durham/Johnston County area; is that correct?

21          A       That is correct.

22          Q       And the director of operations, number 8, you  
23 have a statewide manager who is in charge of all your  
24 operations, and these area managers report to the

1 director of operations, correct?

2 A All three area managers do report to the  
3 director of operations.

4 Q And I refer you to page 11 of your rebuttal  
5 testimony, lines 14 through 16. Could you please read  
6 into the record that sentence that begins to the right,  
7 "This is another"?

8 A "This is another unfortunate example of the  
9 Public Staff raising service quality issues" --  
10 designated (sic) -- "to call into question the integrity  
11 of Aqua's management decisions."

12 Q Now, I refer you to the last page of this  
13 exhibit, which was an email from William Grantmyre, dated  
14 September 29 -- I'm sorry, September 9, 2018, to Jo Anne  
15 and Bob. And you would stipulate that seems to be Bob  
16 Bennink and Jo Anne?

17 A I would agree that that's who this is drafted  
18 to, yes.

19 Q Could you please read the highlighted portion?

20 A "Sunday, September 9, 2018, at 2:08 p.m."

21 Q And the rest? The text --

22 A Read the whole email?

23 Q Yes, please.

24 A "Jo Anne and Bob, Aqua's response to EDR 62,

1 items 7 and 8, were objected to by Aqua stating,  
2 'Objection. The question appears to have no discernable  
3 relationship to Mr. Becker's rebuttal testimony.' Items  
4 requested, the names and employment dates of Aqua's  
5 central area manager from June 1, 2004 to date (Item 7);  
6 and Aqua's statewide director of operations from June 1,  
7 2004, to date (Item 8). A portion of Mr. Becker's  
8 rebuttal testimony that this relates to is page 11, lines  
9 14 through 16, which states, 'This is another unfortunate  
10 example of the Public Staff raising service quality  
11 issues designated to call into question the integrity of  
12 Aqua's management decisions.' The Public Staff has  
13 provided the relationships and requests that Aqua provide  
14 the requested information which is readily accessible for  
15 Aqua."

16 Q And you would admit that this information would  
17 be readily accessible by Aqua through their HR  
18 Department?

19 A It would be. Not on Sunday.

20 Q I believe -- isn't this around September 21st?  
21 Today?

22 A Today it is, yes, or I'm not sure.

23 Q Okay. So you will agree that 12 days have  
24 elapsed and we still haven't got a response?



1           A     I would agree.

2           Q     Now, would you agree if you had constant  
3 turnover of key management, that would be detrimental to  
4 the service -- to the operational management, that would  
5 be detrimental to the service provided to customers?

6           A     Potentially.

7           Q     Well, isn't it true that since June 1 of 2004,  
8 Aqua has had approximately eight central area managers in  
9 that position over a period of just a little over 14  
10 years?

11          A     I think eight is a pretty high number. I don't  
12 think it's been eight.

13          Q     Well, had you complied with the request, then  
14 we would know for sure, wouldn't we?

15          A     If we had complied, yes.

16          Q     And isn't it true that Aqua, since June 1 of  
17 2004, has had approximately eight different statewide  
18 directors of operation?

19          A     I believe that's an overstatement as well. I'm  
20 thinking the number is probably closer to four on each of  
21 those, four or five.

22          Q     Well, you know, Chuck Junis has been with the  
23 Public Staff since, I believe, April of 2013, and there  
24 have been four different Cary area managers during that

1 five and a half year period. Would you accept that as  
2 fact?

3 A Since when?

4 Q April -- April of 2013.

5 A How many did you say?

6 Q Four.

7 A I may be missing one, but I think it's three.

8 Q Well, it was Colton James, it was Bonne, and  
9 now it is Krueger, and there is another one in there  
10 somewhere. I can't find --

11 A I forgot Colton James, actually.

12 Q Okay.

13 A I would agree.

14 Q So there is -- you accept four?

15 A I would.

16 Q And if, in fact, Aqua had complied with the  
17 request in number 8, we would know the real number for  
18 the director of operations?

19 A Yes.

20 Q So if one would assume, like I assume, the  
21 reason Aqua did not comply is they did not want people to  
22 know how bad the turnover is in those key management  
23 positions, would you agree with that?

24 A I don't think that's the case. I think it was

1 more of the timing of the request and the starting of the  
2 evidentiary hearing on that Tuesday.

3 Q Well, your HR department, surely they could  
4 have assembled this in 15 or 20 minutes, couldn't they?

5 A If I probably had the time to go and ask for  
6 that, yes. We were in the middle of settlement  
7 discussions both weekends prior to that. It was a very  
8 time consuming period of time. And I think we're doing a  
9 pretty good job of walking through how many folks we had  
10 in the recent past.

11 Q Okay. Now we're going to move to a subject we  
12 all love.

13 MR. GRANTMYRE: Oh, I'm sorry. This bright,  
14 young lawyer next to me is straightening me out. I would  
15 ask that this be identified as Public Staff Becker Cross  
16 Examination Exhibit Number 5.

17 Q Now, you are a certified public accountant?

18 A I'm inactive.

19 Q But you were licensed?

20 COMMISSIONER BROWN-BLAND: Just a minute.

21 Let's --

22 MR. GRANTMYRE: I'm sorry.

23 COMMISSIONER BROWN-BLAND: This front and back  
24 page exhibit you just handed out will be identified as

1 Public Staff Becker Rebuttal Cross Examination Exhibit 5.

2 (Whereupon, Public Staff Becker

3 Rebuttal Cross Exam Exhibit 5 was

4 marked for identification.)

5 Q You did have a -- you went inactive, but you  
6 had and can reactivate your CPA license if you jump  
7 through some hoops?

8 A Yes.

9 Q Okay. And you will accept, subject to check,  
10 that numbers can be easy to accountants?

11 A That numbers come easy to accountants?

12 Q Yes.

13 A Some.

14 Q Some. Okay. Now, I handed you this document  
15 entitled Annual Revenue Requirement Cost Per Aqua Uniform  
16 Rate Water Customer for Manganese Greensand Filtration  
17 Compared to Sequestration with Polyphosphate or SeaQuest.  
18 And on the first page we have an analysis of manganese  
19 greensand filtration annual revenue requirement. And if  
20 we could move through this quickly, you know, the first  
21 line says cost for 80 manganese greensand filters  
22 totaling \$28,000,000, and I've given you the section of  
23 Dr. Crockett's testimony that he states that. Do you  
24 agree with that?

1           A     Subject to check, yes.

2           Q     Okay.  And earlier we talked about 25 percent  
3     of your wells are being fed with sequestration -- we're  
4     moving away from this for a minute -- but if you have  
5     1,300 wells, potentially 25 percent of that would put you  
6     somewhere up around --

7           A     Three hundred (300) plus.

8           Q     Very good.  Okay.  And if each one was  
9     \$350,000, that potentially is a lot more than the cost  
10    for this 80.  It would be well over -- in the  
11    \$100,000,000 range; wouldn't that be correct?

12          A     It would be close to it, yes.

13          Q     Okay.  And subject to check, you will agree  
14    that it's a 4 percent rate in Spanos Annual Depreciation  
15    Study, Account 320.00?

16          A     Subject to check, yes.

17          Q     And would you agree that the annual  
18    depreciation would be 1.12 -- I'm sorry -- \$1,120,000 per  
19    year?

20          A     Subject to check, yes.

21          Q     You don't trust a lawyer's math?

22          A     Subject to check.

23          Q     That's very wise.  And in this example we just  
24    assumed four years of accumulated depreciation which

1 reduces the rate base. And you agree that accumulated  
2 depreciation reduces the rate base?

3 A I do.

4 Q And, therefore, in the example where we do the  
5 -- the revenue requirement down below Debt and Equity 50  
6 percent, this example uses the 23,520,000 instead of the  
7 28,000,000. Do you see that?

8 A The 11,760,000 times two is 23,520,000. That  
9 appears correct.

10 Q And you see the 4.63 percent cost rate is the  
11 debt rate in this proceeding?

12 A I do.

13 Q And the equity rate of 9.20 is the very well  
14 documented Public Staff number?

15 A It appears a little low, but I'll take it.

16 Q Okay. And you would agree that if the  
17 Commission adopted a higher number, the revenue  
18 requirement would be higher, correct?

19 A It would, yes.

20 Q And then we have what we call retention factors  
21 to gross them up for income taxes which are the same ones  
22 used in this case.

23 A Subject to check, I'd agree with that.

24 Q And if you multiply it all out, it comes down

1 to \$1,959,105. Would you agree with that, subject to  
2 check?

3 A Yes.

4 Q And when you add the depreciation to it, the  
5 total revenue requirement, just based on depreciation and  
6 the return, is 3,079,105, subject to check?

7 A Subject to check, yes.

8 Q And in this example -- and you have, give or  
9 take, around 61,000 Aqua uniform rate customers at this  
10 time, in that ballpark?

11 A If all of these filters were for Aqua North  
12 Carolina's rate entity, it's a little north of 60,000, I  
13 believe.

14 Q Okay. And this example, since we're talking  
15 about four years of accumulated depreciation, we use  
16 65,000 customers. And if we use 60,000, the cost per  
17 customer would be higher. Wouldn't you agree with that?

18 A If you change that component, yes.

19 Q Okay. Anyway, you would agree that the math at  
20 the bottom, it comes out to the annual revenue  
21 requirement would be \$47.37 additional for these filters?  
22 You don't gross up for that.

23 A Looking at this quickly, it appears generically  
24 appropriate, and it has the components that I would

1 expect there.

2 Q And if you would go to the second page, and you  
3 would agree at the top it says Sequestration with  
4 Polyphosphate or SeaQuest Annual Revenue Requirement.  
5 And would you accept, subject to check, that the 59---  
6 the annual Aqua test year ending September 30, 2017, from  
7 your W-1, this account number, and I've given you the  
8 label of the account, showed for the Aqua ANC, which is  
9 your uniform rate customers, the expense number was  
10 59,236?

11 A I would accept that, subject to check.

12 Q And, also, the test year ending billings, that  
13 is, the September 30, in your W-1 item whatever was  
14 723,243.

15 A I'm just doing a little interpolation between  
16 the customers that used 65,000 in the other page, and  
17 that would -- it's about approximate. It sounds right.

18 Q And, you know, basically the average number of  
19 bills mailed in a month during the September 30, 2017  
20 test year comes out to 60,270. Would you accept that  
21 math?

22 A I accept the math, yes.

23 Q And in test year, sequestration revenue  
24 requirement per customer is -- would be the 59,000



1 divided by the average number of customers, would give  
2 you a per customer cost of 98 cents per year per  
3 customer. Would that be correct?

4 A It appears correct.

5 Q So when we compare the annual revenue  
6 requirement per customer for manganese greensand, it  
7 comes out to be \$47.37, compared to sequestration of 98  
8 cents per customer; is that correct?

9 A Yes.

10 Q And you would accept that if you divide the  
11 47.37 by the 98 cents, it's equal to -- it's 48.3 times  
12 greater, that is, the 47.37 is 48.3 times greater; is  
13 that correct?

14 A I would agree with that.

15 Q And you would also agree that 48.3 is much more  
16 than the six times greater that Dr. Crockett inferred or  
17 stated/inferred in his testimony, although he threw into  
18 the six times the cartridge filters, too?

19 A I don't specifically recall his testimony.

20 Q Now, when we do ratemaking, sequestration or  
21 polyphosphate, the Company doesn't earn a profit on that,  
22 do they?

23 A We do not. It's an expense. It's recovered  
24 dollar for dollar, typically.

1 Q But the Company's investment in filters, you  
2 earn a return on equity or allow the opportunity to earn  
3 the Commission-approved return on equity, don't you?

4 A As is -- as in any approved capital investment,  
5 yes.

6 Q And that's also grossed up with taxes, so the  
7 return on equity is net of federal and state income  
8 taxes; isn't that correct?

9 A I believe so.

10 Q That's what the retention factor does, it  
11 grosses it up for --

12 A Then I believe so.

13 Q And you would also agree that the more filters  
14 you install, the greater the profits the Company is able  
15 to earn, correct?

16 A Correct.

17 Q Okay.

18 MR. GRANTMYRE: We're finally moving to our  
19 favorite, Johnston County. We would request that this be  
20 identified as Public Staff Becker Rebuttal Cross Exam  
21 Exhibit Number 6.

22 COMMISSIONER BROWN-BLAND: This document that  
23 appears to be a PowerPoint of some kind with Aqua on the  
24 front page will be identified as Public Staff Becker

1 Rebuttal Cross Examination Exhibit 6.

2 (Whereupon, Public Staff Rebuttal  
3 Cross Exam Exhibit 6 was marked  
4 for identification.)

5 Q And, Mr. Becker, I promise you this, I have a  
6 solution so that Aqua, the Public Staff, and the  
7 Commission won't have to have all this much fun in the  
8 future.

9 A I can't wait to hear it.

10 Q Okay. But you've got to wait.

11 A Don't make me wait too long.

12 Q Okay. You recognize this as a PowerPoint that  
13 you presented, or I think it was your engineer or manager  
14 actually made the presentation, but you stood up front  
15 with him during the presentation. Who was that  
16 gentleman?

17 A That was Jacob Mueller.

18 Q And he was one of your engineers.

19 A That is correct.

20 Q And I refer you to page 6. On the bottom  
21 right-hand corner of each page is the number -- are the  
22 numbers. And the staple makes it a little difficult, but  
23 this is the one that has obligated flow projections; do  
24 you see that?

1           A     I do.

2           Q     And it says NCDEQ, and that's Division of Water  
3 Resources, Notification of Over-Obligation. Apparently,  
4 even though the Public Staff is -- wouldn't this be a  
5 good reason why the Public Staff should get notices of  
6 what's being sent to you so we know what's going on?

7           A     Again, what's sent to us is available. DEQ is  
8 regulating us from the environmental perspective, which  
9 is what this is related to.

10          Q     Well, as a taxpayer wanting to save money,  
11 wouldn't it be more -- okay. We've already been there.  
12 Okay. And it says response due June 1, 2018. Can you  
13 please tell the Commission what this Notification of  
14 Over-Obligation is, and the response due June 1, 2018,  
15 what that is, and what was in your response?

16          A     This slide, I will say, was prepared by, as you  
17 mentioned, our engineer. I'm not intimately familiar  
18 with what the requirements around the notifications are.  
19 I'm guessing a little bit, that this might be the 80 --  
20 possibly the 80 percent response. Once you reach a  
21 certain level of actual flows at a plant you have to  
22 provide or begin engineering. But I'm not positive.

23          Q     Okay. But it says over-obligation. It  
24 appears, using those words, it's not based on actual

1 flow. It appears, by what you have -- what they have  
2 issued collection system permits for, that becomes an  
3 obligation, that you would have to provide service to  
4 those houses when they're built. Does that sound like a  
5 reasonable explanation to you?

6 A I honestly -- I'm not very familiar with this  
7 DEQ required response of over-obligation.

8 Q Well, you know, it has this graph that,  
9 somewhat of a straight line that keeps going up, but on  
10 the bottom it has the dates. It has January '18. I'm  
11 assuming that's January 2018. And it has -- up above you  
12 have a little diamond that says 712,260; is that correct?

13 A That is correct.

14 Q And based on the amounts that we've been  
15 hearing about on amounts of capacity fees and wastewater,  
16 construction fees that -- on the Neuse plant that  
17 capacity sold, doesn't it appear that 712,260 seems to be  
18 in the ballpark of the total amount of capacity that Aqua  
19 has sold either in its wastewater treatment plant or the  
20 333,000 with the Johnston County?

21 A Based on the book numbers, I would say they  
22 approximate the book numbers, but are nowhere near the  
23 actuals.

24 Q Actual flows.

1           A       The actual flows.

2           Q       Okay.  And would you agree that tracking  
3 obligations is something that DENR and Public Division of  
4 Water Resources has started the last several years and  
5 now makes the companies file reports on that so they  
6 would know that a company cannot obligate itself for  
7 1,000,000 gallons when it can only discharge 200,000?

8           A       Right.  And I think what this requests in that  
9 response is a plan as to why this isn't representative of  
10 the actual and what are we planning on doing to address  
11 the issue, because at first glance on paper, it would  
12 look as if we are approaching our capacity.

13          Q       Sold capacity, but not actual.

14          A       It looks as if we are approaching -- using sold  
15 capacity, it would look as if we are approaching the  
16 actual capacity in our plant, which is not the case, and  
17 that would be provided in the plan.

18          Q       Now, the purpose of this meeting was,  
19 basically, you were trying to decide to some extent when  
20 and if you should buy capacity from Johnston County,  
21 isn't that correct, or should you build an extension on  
22 to your existing 350,000 gallon a day wastewater  
23 treatment plant?

24          A       No.  This meeting was requested by me.  We had.

1 already gone through the cost to build versus buy  
2 analysis, and this was a meeting requested by me in an  
3 attempt to work through an accounting issue that might  
4 result if we went forward. And I was proposing buying  
5 not just the needed capacity, but buying as much capacity  
6 as I was obligated to buy under the contract, which was  
7 500,000 gallons. I didn't need that much. The problem  
8 is if I buy 500,000 gallons, it's most likely going to be  
9 considered not used and useful or excess capacity. I  
10 just wanted to make sure if we were going to spend in  
11 excess of \$4,000,000 to lock in a rate, that the Public  
12 Staff might agree that we could get deferred accounting  
13 on that extra piece which would have saved customers a  
14 significant amount of money.

15 Q Now --

16 A That was the purpose of the meeting.

17 Q I'm sorry.

18 A I just said that was the purpose of the  
19 meeting.

20 Q Now, on page 7 in the middle it says  
21 significantly lower, 8.48 versus \$18 per gallon. Is that  
22 what it says?

23 A It does.

24 Q And, again, on page -- and these are your

1 numbers. These are not the Public Staff's numbers. Can  
2 we agree on that?

3 A Yes.

4 Q On page 8 you also use the price of 8.48 per  
5 gallon; isn't that true?

6 A Yes.

7 Q For the first 500,000 gallons.

8 A That's correct.

9 Q And what the purpose of this slide was, you  
10 thought there was an imminent price increase by the  
11 County, and you wanted to lock it in at the 8.48; is that  
12 correct?

13 A Only under certain conditions, right.

14 Q But the 8.48 is the number you used.

15 A Compared to the 18, yes.

16 Q And I turn you to page 11. And we won't go  
17 through the whole example here, but it has at the top  
18 Number of Gallons of Capacity, 500,000, and you include  
19 in there in your price per gallon to be paid to the  
20 County the cost of conveyance, which you would agree  
21 would be the distribution system and the cost of  
22 treatment at the 5.34, correct?

23 A That's correct.

24 Q And it's 8.48. And then again as an example,



1 on page 12 as to what you think it may be in the future,  
2 again, you used cost of conveyance \$5.00, cost of  
3 treatment \$13.00, and your total price, is it true, was  
4 \$18.00?

5 A That's correct.

6 Q And, again, you had both of those costs in the  
7 price you would have to pay to the County, correct?

8 A We did.

9 COMMISSIONER BROWN-BLAND: Mr. Grantmyre, we're  
10 going to take a break, come back and be on the record --  
11 come back to order at 3:15.

12 MR. GRANTMYRE: A short break.

13 COMMISSIONER BROWN-BLAND: Excuse me. Correct  
14 that. 3:20.

15 (Recess taken from 3:06 p.m. to 3:20 p.m.)

16 COMMISSIONER BROWN-BLAND: Let's come back on  
17 the record. Where is my witness?

18 MS. SANFORD: Here he comes. Here he comes.

19 COMMISSIONER BROWN-BLAND: Mr. Grantmyre.

20 CONTINUED CROSS EXAMINATION BY MR. GRANTMYRE:

21 Q And turning to -- okay. And after this meeting  
22 in April, you agree that this PowerPoint was presented in  
23 April of 2018?

24 A I believe that's correct, yes.

1 Q And then the Public Staff did some research  
2 going back into the contracts, and then Mr. Junis had  
3 another meeting, and the Public Staff, which I was not  
4 attending, on May 23rd; is that correct?

5 A That is accurate.

6 Q And you even asked where's Grantmyre because  
7 you wanted him at the meeting.

8 A I did because you were the founder of this  
9 contract --

10 Q Okay.

11 A -- who knew the most about it, so I had asked  
12 why you were not available.

13 Q I'm glad that I'm so popular or unpopular.

14 A I missed you.

15 Q Okay. And then again, the Company did meet --  
16 Aqua met with the Public Staff sometime in early to mid  
17 June; is that correct?

18 A I don't recall, but I believe so.

19 Q But that was one Mr. Pearce was showing us the  
20 statute about where the Legislature has gotten involved  
21 on fees charged by cities and counties, and they had to  
22 jump through some hoops. Do you remember that meeting?

23 A I do.

24 Q It was in the Wells room.

1           A     I do.

2           Q     And is it true you found out and the Public  
3 Staff found out that, at least in Johnston County's  
4 attorney's opinion, that statute did not apply to your  
5 contract with Johnston County because it was a contract  
6 and, at least in their opinion, that statute did not  
7 apply?

8           A     I would say I do not recall any legal  
9 discussion about what applied and did not apply from a  
10 statutory basis.

11          Q     But during this period you all made -- or Aqua  
12 made one or more trips to Johnston County to discuss all  
13 this with them?

14          A     Members of my team had, yes.

15          Q     And at that you were informed by Johnston  
16 County, at least in their opinion, that the capacity fee  
17 included transmission and the wastewater treatment plant;  
18 is that correct?

19          A     The overall identification of what they are  
20 charging as capacity fee, they said it currently does.  
21 That's how they're -- that's how they're looking at it  
22 now.

23          Q     Well, didn't he tell you that when he came up  
24 with the 5.50, that it was his intent it included the

1 transmission, also?

2 A I do not believe that that was the case.

3 Q Okay.

4 MR. GRANTMYRE: We would ask that this be  
5 identified as Public Staff Becker Cross -- Becker  
6 Rebuttal Cross Exam Exhibit 7. Well, I'm missing some  
7 stuff. Anyway...

8 COMMISSIONER BROWN-BLAND: This document on  
9 Johnston County letterhead will be so identified.

10 (Whereupon, Public Staff Becker  
11 Rebuttal Cross Exam Exhibit 7 was  
12 marked for identification.)

13 Q And this has already been in evidence before,  
14 and we're not going to beat it up right now and go  
15 through it again, but you will admit that as of August  
16 17, 2009, the County was quoting different numbers than  
17 \$6.00 a gallon, which is what you were collecting?

18 A I'm sorry. Can you repeat the question?

19 Q You will agree that as of the date of this  
20 letter, August 17, 2009, the County was quoting you  
21 different numbers than the \$6.00 that you were  
22 collecting, correct?

23 A That is correct.

24 Q And so Aqua at least had notice, whether they

1 agreed to it or not, as much as nine years ago that there  
2 could be an issue with what would be the correct amount  
3 that they would have to pay; is that correct?

4 A With what Aqua would have to pay or what the  
5 developers would have to pay?

6 Q Both.

7 A There are various numbers here. Nothing is set  
8 in stone. And they are proposed numbers, so there are  
9 different numbers, yes.

10 Q Okay. But none of them are \$6.00; is that  
11 correct?

12 A That's correct.

13 Q Okay.

14 MR. GRANTMYRE: I would ask that this be  
15 identified as Public Staff Becker Rebuttal Cross  
16 Examination Exhibit Number 8.

17 COMMISSIONER BROWN-BLAND: This exhibit, which  
18 appears to be an email, will be identified as Public  
19 Staff Becker Rebuttal Cross Examination Exhibit 8.

20 (Whereupon, Public Staff Becker  
21 Rebuttal Cross Exhibit 8 was  
22 marked for identification.)

23 Q And will you agree that this appears to be an  
24 email to -- from Peggy Dodge to Rebecca Flowers?

1 A Yes.

2 Q And Peggy Dodge is the administrative assistant  
3 -- she has a title -- but to your business development  
4 director; is that correct?

5 A I don't exactly know her title, but --

6 Q Okay.

7 A -- I know who Peggy is, yes.

8 Q But she's the administrative assistant to  
9 Ruffin Poole, correct?

10 A Correct.

11 Q And Ruffin is your business development person,  
12 although he was not working for the Company at this time?

13 A That's correct. That would have been Rudy  
14 Shaw.

15 Q Yeah. And I believe you also had Jim Powers  
16 around this time, maybe. Anyway -- anyway, let's move  
17 on. Can you read the -- and Becky Flowers, Rebecca  
18 Flowers, you've met with her a number of occasions?

19 A I've met with her one time.

20 Q And your people have met with her a number of  
21 times; is that correct?

22 A That is correct.

23 Q Could you read -- and this is Peggy to Ms.  
24 Flowers, correct?

1 A Yes.

2 Q Could you read the paragraph that's highlighted  
3 on page 1?

4 A "I have adjusted the sewer credit for the  
5 projects currently under construction (see attached). In  
6 order for the capacity fee payments to be made in phases  
7 it will be necessary for each agreement attached to be  
8 signed and returned to me for Aqua's signature.  
9 Currently no sewer capacity fees are due because of the  
10 credit that is available. The available credit at this  
11 time is \$51,320.80 and can be used toward future  
12 development."

13 Q Now, the other day there was testimony as to  
14 since there would be a reduction, flow reduction or  
15 permitted reduction down to 180 for a three-bedroom  
16 house, and it's in your rebuttal testimony, that Aqua may  
17 be able to resell that capacity. Now, if we go to this  
18 chart, the color chart, do you see it? It's the third  
19 page.

20 A Yes.

21 Q Have you seen this chart before?

22 A It does not look familiar.

23 Q Well, I will represent to you that I've not  
24 seen it before until the very smart, young Public Staff

1 'engineer showed it to me yesterday. And could you read  
2 at the top what it says?

3 A The highlighted?

4 Q Yeah. Well, first of all, it says at the top  
5 Flowers Commercial Allocations by Public -- Allocations  
6 by River Dell were calculated at 360. Could you read the  
7 rest of the highlighted right below it?

8 A Flow reductions being completed for 240 gallons  
9 per day. Mike Myers. Credit being issued to developer  
10 of Flowers for different between 360 and 240.

11 Q Now, on the left -- the far left column, it has  
12 Paid, and it has a number of dates. Do you see that?

13 A I do.

14 Q And then it has Water Capacity Fees which  
15 presumably is what was collected, and the next column  
16 over has sewer capacity at 360 gallons per day; is that  
17 correct?

18 A I think it says 240 gallons per day, no? Am I  
19 looking at the right column?

20 COMMISSIONER GRAY: He's looking at the  
21 highlighted and you're not.

22 MR. GRANTMYRE: Oh, oh. Thank you. Thank you.

23 Q Now, this is the third column over, and it says  
24 Sewer Capacity Fees 360. It's not highlighted.



1           A     I'm sorry. I -- oh, are you in the table or  
2 are you above?

3           Q     I'm above.

4           A     I'm sorry. Okay.

5           Q     I'm sorry.

6           A     Sewer Capacity Fees at 360 gallons per day.

7           Q     And that is fees, so it appears to be dollars;  
8 is that correct?

9           A     I would assume so.

10          Q     And then it has the System Name, and I know  
11 you're not familiar with all the names, but would you  
12 accept, subject to check, that these are all sections of  
13 Flowers Plantation?

14          A     Possibly, I guess, subject to check, yes.

15          Q     But you would agree that she is the master or  
16 the developer of Flowers Plantation, even though she  
17 sells off parcels that are also developed by other  
18 developers; is that correct?

19          A     That's correct.

20          Q     And tract builders come in, like DR Horton  
21 comes in and buys 100 acres or whatever and builds homes,  
22 correct?

23          A     I would agree with that, yes.

24          Q     Okay. And then the highlighted column states

1 Credit Due at 240 versus 360, and it lists a bunch of  
2 numbers that appear to be dollar credits. Would you  
3 agree with that, subject to check?

4 A I don't know what Per NP/MM is, but possibly to  
5 the gallons or dollars, I would assume.

6 Q Well, up at the top, Mike Myers was involved.  
7 Flow reduction being completed at 240, Mike Myers. Is it  
8 possible that MM is Mike Myers and NP is someone else?

9 A Neal Phillips, possibly.

10 Q Neal Phillips. He was -- okay. And,  
11 therefore, if you list all these numbers coming down,  
12 that a credit, it appears to be 176 thousand, 800  
13 thousand or some dollars, but \$176,000, correct?

14 A Correct.

15 Q And then if you go down to the chart below, the  
16 third column over it says Sewer Capacity Fees at 240  
17 gallons per day, correct?

18 A Yes.

19 Q And it lists the fees, 46,000, 27,000,  
20 1,400, --

21 A Yes.

22 Q -- 50,000. And if you subtract those numbers  
23 from the 146 -- I'm sorry -- the 176 that we discussed  
24 previously, you end up in the column -- the fifth column

1 over that's entitled Available Credit, the number after  
2 Pineville East Cottages, which is the fourth line down,  
3 is \$51,321. Would you agree with that?

4 A Yes.

5 Q So it appears from this document that was  
6 prepared by Aqua that the reduction from 360 to 240 for  
7 gallons previously paid for, they were issuing a credit  
8 to the developer that paid for it, which would be in line  
9 with Chuck Junis' testimony yesterday that the developers  
10 may feel they bought the gallons, and a flow reduction  
11 gives them extra gallons which they do not need to pay  
12 for in the future. Would you agree that that would be  
13 one interpretation of this memorandum and chart?

14 A I would agree that that's the case in this  
15 respect, I do know Neal Phillips had a -- made a special  
16 agreement with Becky Flowers, as well as Mike Myers.  
17 Neal Phillips and Mike Myers both previously worked for  
18 Aqua, I think for you, Mr. Grantmyre.

19 Q No, no.

20 A Or not Neal Phillips. I know you don't want to  
21 take claim to that.

22 Q Neither one.

23 A Oh, okay. They had an agreement that was made  
24 with Becky to do this crediting, which would provide

1 additional lots, then. You know, you're basically being  
2 paid CIAC at the lower amount. This was a one-time deal  
3 and it's not happened since, from what I understand.

4 Q Now, Neal Phillips was the President of Aqua  
5 and Heater Utilities after I left in May -- well, he was  
6 always the President of Aqua North Carolina; isn't that  
7 correct?

8 A Well, not always. For a short period of time I  
9 believe he was.

10 Q Well, when they moved to North Carolina -- when  
11 they first came here, they -- Aqua bought, I believe,  
12 Hydraulics, and then they bought AquaSource which had  
13 Rayco and Fairways, he was the President of Aqua that  
14 whole time; is that correct?

15 A And that's what I'm --

16 Q If you know.

17 A -- that's what I'm saying, is we own the  
18 capacity of the plant, and he made an arrangement to do  
19 this with Becky, but I don't know what all the other  
20 parameters or terms involved were.

21 Q But he was the President of Aqua at the time  
22 this was made?

23 A I believe.

24 Q Or --

1           A       Well, this is showing pay dates from 1999, and  
2 I don't know what period this covers. I'm just aware  
3 that he had some arrangement with Becky for a short  
4 period that he did provide credits.

5           Q       And at least this memo -- this email was August  
6 23, 2007. You would agree with that?

7           A       I would.

8           Q       And it does conclude that even after all these  
9 deductions, there was still an available credit of  
10 \$51,321?

11          A       I assume so. Appears appropriate.

12          Q       Now, you have not completed yet, or Aqua has  
13 not completed yet the reconciliation process with DWR in  
14 order to get the 180 gallons per day applicable to all  
15 prior permits issued; is that correct?

16          A       The 180 gallons per day has been approved, and  
17 that's based on an analysis of the total capacity, the  
18 actual flow coming through from all lots that were  
19 previously sold into it. The 180 gallons per day is an  
20 approved number. I believe what you're referring to is a  
21 reconciliation of the plant --

22          Q       Yes. That's what I'm referring to.

23          A       -- which is a formality and a paper -- it's  
24 just a paper filing, that request has been made.

1 Q The request has been made, but you heard  
2 testimony that there was a large number, 10 or 12,  
3 Certificates of Completion. Will you please explain to  
4 the Commission what a Certificate of Completion is filed  
5 by the professional engineer?

6 A I'm not -- I'm sorry. I'm not sure what you're  
7 referring to.

8 Q Okay. Both Public Water Supply and Division of  
9 Water Resources for Wastewater require at the end of the  
10 project and before it goes into service that the  
11 professional engineer certify to the respective agency,  
12 whether it be Public Water Supply or Division of Water  
13 Resources, that the construction was in compliance, that  
14 is, the system installed is in compliance with the DENR  
15 approved plans. Are you aware of that?

16 A I'm not familiar with all the details of it. I  
17 know that there's a certificate that's applied for and  
18 approved.

19 Q And would you accept, subject to check, with  
20 that 10 or 12 that Aqua recently turned in for their  
21 reconciliation were late being turned in? They should  
22 have been turned in before you began serving the  
23 customers.

24 A Are these the ones that we submit to the Public

1 Staff?

2 Q No. These are the ones that go to DENR from  
3 the professional engineer.

4 A I'm not aware of it.

5 Q Okay. Now, we talk about the contracts, these  
6 2002 -- May 14, 2002. Now, Aqua acquired Heater  
7 Utilities in May -- June 1 of 2004; is that correct?

8 A That sounds correct.

9 Q And that was a stock purchase, correct?

10 A Actually, I do not know.

11 Q Well -- okay. But the record will speak to  
12 itself what was in the Commission order. You agree with  
13 that?

14 A For what, the authorization of the purchase?

15 Q Yes. Whether it was a stock purchase, whether  
16 you purchased the equity of Heater Utilities, or you  
17 purchased the assets.

18 A I'm sure the details are available.

19 Q And throughout your testimony you keep  
20 referring to this as a Heater contract, a Heater  
21 contract; isn't that correct?

22 A I think if I am, it's just because it was a  
23 Heater contract that was initiated. It's a Heater/Aqua  
24 now, but all the references to the contract since Aqua

1 wasn't the owner at the time were Heater, which is why I  
2 believe we refer to it as Heater.

3 Q Are you aware that in your -- in the current  
4 contracts you have, and I have before me one dated August  
5 15, 2017, Aqua North Carolina, Inc. with BFP Developers,  
6 LLC, whoever that is, you have in the definition section  
7 bulk wastewater agreement, and it states, I quote, "Bulk  
8 Wastewater Agreement shall mean the certain agreement  
9 signed by Aqua and Johnston County dated May 14, 2002,  
10 and amended September 30, 2009, for the purchase of bulk  
11 water treatment per SFRE for each planned SFRE in a  
12 subdivision." So apparently Aqua now likes this contract  
13 a little better because they are saying they signed it?

14 A I don't think so. I think that was an  
15 oversight between the fact that we acquired Heater, and  
16 if it was a stock purchase, it's all the same.

17 Q So you -- as a CPA, you know if the acquisition  
18 of Heater was a stock purchase, that you step into the  
19 shoes of the company that you bought the stock of,  
20 correct?

21 A I'm not a CPA.

22 Q You were a CPA.

23 A I was.

24 Q Okay.



1           A       I'm inactive.

2           Q       But you understand that premise or the law or  
3 the fact that a stock purchase, you step into the shoes  
4 of the company?

5           A       I'm aware.

6           Q       And you struck the word capacity fees about the  
7 lift station, so you took away a bunch of my questions so  
8 we'll move on.

9                       (Off-the-record discussion.)

10          Q       One, you know --

11                   MR. GRANTMYRE: I'll come back to that, but  
12 that's a good one. You know, us old guys need help, you  
13 know. Sorry.

14          Q       Throughout -- throughout this --

15                   CHAIRMAN FINLEY: Ms. Culpepper, if you can  
16 speed him up, do what you can, please.

17                   THE WITNESS: I agree.

18          Q       One thing, throughout your testimony it seems  
19 like the Public Staff should have seen all this, and et  
20 cetera. You have -- Aqua America, Inc., your parent  
21 company, is audited every year by PriceWaterhouseCoopers,  
22 correct?

23          A       Recently, yes. I mean, I don't know who all  
24 the auditors have been every year, but we're audited by

1 one of the big four firms, yes.

2 Q And will you accept, subject to check, that in  
3 the -- at least in the proxy statement, the fee is, give  
4 or take, \$1.5 million?

5 A Subject to check, yes.

6 Q And the allocated amount, will you accept,  
7 subject to check, is somewhere -- to North Carolina is  
8 about 140,000 -- \$140,000 per year?

9 A Subject to check, I would accept that.

10 Q But isn't it true that PriceWaterhouseCoopers  
11 and the external auditors never come audit the books of  
12 Aqua North Carolina?

13 A Never -- never is a big word. I don't know if  
14 it's been never. I know that they send information  
15 requests down. They're typically not here, not since  
16 I've been in office in 2016.

17 Q But you were there in 2009 to 2012.

18 A And if I recall correctly, I remember getting  
19 questions to help facilitate their annual audits.

20 Q Did they review your contracts?

21 A I don't recall.

22 Q Isn't it common in an audit to review certain  
23 contracts or at least pick out certain contracts and  
24 review to see if the Company has complied with the

1 financial terms?

2 A As an ex-auditor, we would take a sampling,  
3 sometimes based on size we would look at the bigger ones,  
4 and the smaller ones would be random. This would  
5 definitely be probably under the radar. It would be a  
6 smaller one that they may not look at.

7 Q But Flowers Plantation is going to have a  
8 buildout of about 5,000 houses or 10,000 customers.  
9 Isn't this the largest customer contract you have for a  
10 development in North Carolina?

11 A Well, we have lots of contracts. We have 750  
12 systems, as you know. I can't say why a selection was or  
13 wasn't made. If you look at the principles of auditing  
14 and the techniques, it's a sampling size. And  
15 determining size of a contract, the future potential for  
16 this might be big, but that wouldn't make this one stick  
17 out as a big one. I think it would go into the pool with  
18 all other developer contracts that they might sample.

19 Q Well, we're talking about millions of dollars  
20 of fees here. Not many of your contracts -- most of them  
21 are small contracts involving much less in fees, aren't  
22 they?

23 A I can't speak to their sampling techniques.

24 Q Anyway, they never did audit this contract, to

1 your knowledge, and discover that the Company was not  
2 collecting the pump station and main fees; is that  
3 correct?

4 A I don't believe -- I'm not aware if they did or  
5 didn't look at this contract.

6 Q And if they had, then they would have pointed  
7 out to you that you should be collecting that because it  
8 was written in the contract and it wasn't being  
9 collected, correct?

10 A It depends on what they're looking for in the  
11 contract. Again, I can't say what their sampling  
12 techniques or testing techniques would have found or not  
13 found.

14 Q But you also have an internal audit group with  
15 Aqua America, don't you?

16 A We do.

17 Q Did they come down and look at this contract?

18 A I'm not aware of anybody who's looked at this  
19 contract from an audit perspective. We're on a cycle, I  
20 think it's a two- or three-year cycle, with internal  
21 audit coming down. I'm just not familiar if this  
22 contract has ever been selected for review.

23 Q But had they selected it, then they might have  
24 found out it was not being complied with; is that

1 correct?

2           A     I don't know if I would agree with that. I  
3 think a lot of the challenges coming out of this contract  
4 is the fact that we have been billing the developer an  
5 amount that was agreed to in the contract. And the  
6 wastewater -- the fact that the fee is based on the  
7 wastewater treatment plant and the next expansion of it,  
8 it's very clear in that page 10 of the bulk wastewater  
9 agreement. It's based on the wastewater treatment plant.  
10 They would have had no reason even if they found some of  
11 the other letters that were sent to us subsequently in  
12 2009 or '16 or whatever the dates were of those, there  
13 would be no reason for them to question, in my belief,  
14 whether that amount was accurate. I think that's key to  
15 why we're sitting here talking about this contract, is  
16 looking in a rearview mirror and trying to say what would  
17 you have done with all the information at our fingertips,  
18 and I don't think that they would have found or  
19 identified that.

20           Q     Well, it might surprise you, but for 28 years  
21 that I was with Heater, we had an audit every year by  
22 either PriceWaterhouseCoopers of Heater or Ernst &  
23 Whinney before Minnesota Power bought us.

24                   COMMISSIONER BROWN-BLAND: Do you have a

1 question, Mr. Grantmyre, or are you testifying?

2 MR. GRANTMYRE: Yeah. I'm getting there. I'm  
3 getting there.

4 COMMISSIONER BROWN-BLAND: All right.

5 Q And in that, isn't a key of audits where they  
6 look at contracts to see if the company has complied with  
7 the financial terms of the contracts and they are booking  
8 the transaction properly? Isn't that what an audit does  
9 in part?

10 A First, in looking at materiality, and as I  
11 mentioned, you know, when you're looking at Aqua America  
12 being audited, it's much different than when you're  
13 looking at Heater, who is a much smaller piece of what we  
14 are today, even in North Carolina. There's a significant  
15 difference between the scope of what would be looked at  
16 by an auditor.

17 Q Now, you will agree, you know, the contract  
18 interpretation is one thing, but going back to Aqua Junis  
19 Cross Examination Exhibit 3 is the May 14, 2002 bulk  
20 wastewater contract, and I'll read you paragraph 2 so we  
21 don't have to hand it out again.

22 A I'm sorry. Could you slow down for a minute?  
23 You referred to Exhibit 3?

24 Q Yeah. Aqua Junis Cross Exam --

1           A     Oh.

2           Q     -- Exhibit 3, which is the contract. I'm just  
3 going to read you this paragraph. It's on page 8,  
4 paragraph 2, under the Section III, "Heater agrees as  
5 follows: Heater agrees to pay \$75,000 plus 50 percent of  
6 the balance of the cost of construction of the pump  
7 station enforcement. The \$75,000 shall be spread  
8 prorated over the total cost of the pump station and  
9 force main. Heater shall be reimbursed for this 50  
10 percent of the construction cost through pro rata  
11 payments by the developers in the Flowers Plantation  
12 tract. Heater's 50 percent payment of the balance shall  
13 be recovered equally from the first 2,000 single-family  
14 equivalents. The \$75,000 shall be Heater's investment  
15 and shall be included in Heater's utility plant in  
16 service and shall not be reimbursed to Heater by  
17 developers."

18                     Now, first of all, it uses the word  
19 "developers," so it doesn't necessarily say which  
20 developer, whether it's Becky Flowers or another, but  
21 isn't this paragraph here very plain and clear what's  
22 supposed to happen and not subject to contract disputes?

23           A     I think if you read through that, that's one  
24 piece of this very complicated contract which I believe

1 you agreed with, that this was an extremely complicated  
2 contract. The terms of this can be fairly well  
3 deciphered, but I think even Mr. Junis, when we first  
4 brought this up, had a different amount that he thought  
5 should be shared until we found, through our  
6 investigation, another file that actually broke down what  
7 the amount should have been.

8 I think it's very clear that this is an unclear  
9 contract and very difficult to understand, decipher, and  
10 follow through with, as is in my testimony. The timing  
11 of the transition, when this contract was developed and  
12 signed, and the acquisition of Aqua to Heater and then  
13 your departure in the early part of 2005, Mr. Tweed's  
14 departure I think later that same year, there was a  
15 transition of management and it was not installed.  
16 Although the contract had been in place for many years,  
17 we hadn't had an opportunity to actually utilize it and  
18 impose it or develop that contract. I think it was  
19 overlooked at that point in time, and it was just follow  
20 through, and there was no reason to go back to it and  
21 question it.

22 Q Now, over the years and when you were there in  
23 2009 and 2012 and then again from 2016 on, isn't it true  
24 that Aqua had a number of discussions with Becky Flowers



1 about this contract and Aqua's obligations to provide  
2 wastewater service to her development?

3 A I'm aware retroactively, seeing some of the  
4 emails that have gone back and forth, but at the time, as  
5 you had mentioned when I was there in 2009, I did not  
6 know that there was active discussions with Ms. Flowers.

7 Q And wasn't she constantly after you to buy  
8 capacity from the County because she was afraid she might  
9 get locked out?

10 A I can't speak to her intention. I'll say the  
11 only thing that I'm aware of is to there were some  
12 discussions, and I believe Mr. Roberts had discussions  
13 with you, Mr. Grantmyre, about concern about buying any  
14 capacity in advance because of the downturn in the  
15 building industry. If we bought capacity in advance, we  
16 could be left holding it and not being able to recover  
17 it.

18 Q But you would agree that this paragraph I just  
19 read that's already in evidence is pretty clear that 50  
20 percent of the balance of the construction cost for the  
21 force main and pump station are supposed to be collected  
22 from developers, and Aqua simply did not do that; is that  
23 correct?

24 A I would say that you could locate that and

1 identify that as part of the contract terms.

2 Q And when you say there was disagreement, the  
3 amount was not clear as to what the 50 percent was  
4 because there was an elimination of interest cost and  
5 some other cost that was not directly engineering  
6 materials and labor.

7 A Right, which we later discovered because we're  
8 looking backwards in time, can go and research and look  
9 that up, yes.

10 Q Now, you keep referring on page 17, line 6,  
11 about a penalty, and you keep referring any -- many of  
12 these Public Staff adjustments you call a penalty. If  
13 Aqua was supposed to collect CIAC and did not collect it  
14 and the Commission decides to impute it, as recommended  
15 by the Public Staff, you would consider that a penalty or  
16 just that Aqua is paying for its mistake rather than the  
17 customers?

18 A Well, I call it a penalty because I believe  
19 when this contract was entered into and transacted by  
20 yourself and Ms. Flowers and Johnston County, I don't  
21 think the intent was to penalize the utility. The  
22 utility is the middle of this. Typically, and this is  
23 the only contract that we have in all of North Carolina  
24 that I am aware of that has these unique sets of

1 circumstances. All the other ones have the developers  
2 acquiring capacity directly from the owner of the plant.  
3 This one, we have a plant and we have a third party in  
4 here where we're going to -- when we are required to buy  
5 from the County certain amounts of capacity. I  
6 apologize. Give me a minute.

7 Q But this is a unique contract because it's such  
8 a large contract, 1,200 acres, and it's already been  
9 going on for 16 years and may go on another 16; is that  
10 correct?

11 A It could potentially go on until she sells out  
12 her -- or till we sell out our capacity that we are  
13 responsible to provide.

14 Q Now, she's been --

15 MR. GRANTMYRE: Okay. We would request that  
16 this exhibit be identified as Public Staff Becker  
17 Rebuttal Cross Examination Exhibit 9.

18 COMMISSIONER BROWN-BLAND: This exhibit on Aqua  
19 letterhead will be identified as Public Staff Becker  
20 Rebuttal Cross Examination Exhibit 9.

21 (Whereupon, Public Staff Becker  
22 Rebuttal Cross Exam Exhibit 9 was  
23 marked for identification.)

24 Q And would you agree that this is on Aqua

1 letterhead, April 13, 2015, the date --

2 A Yes.

3 Q -- to Rebecca Flowers from Tom Roberts who was  
4 then President and COO of Aqua North Carolina?

5 A I would.

6 Q And you've seen this letter, haven't you?

7 A I have.

8 Q And basically, if I could summarize it very  
9 quickly, and tell me if you agree, she had gone up to  
10 your headquarters in Aqua Pennsylvania and trying to get  
11 them to push Aqua North Carolina to proceed and buy  
12 capacity from the County; is that correct?

13 A You said she went up there. I don't know --

14 Q Well, she sent documents up there.

15 A I think she sent an email or a letter.

16 Q Okay. And this is Tom Roberts' response, based  
17 on her action approaching through email or letter,  
18 whatever, Aqua Pennsylvania; is that correct?

19 A This is a response from Tom Roberts to her,  
20 yes.

21 Q And on page 2 there is a paragraph that is  
22 highlighted; is that correct?

23 A Yes.

24 Q And can you please read that into the record?

1           A        "To be clear, to guarantee water and wastewater  
2       capacity from the County, you and/or any other secondary  
3       developer of Flowers Plantation are required to purchase  
4       the capacity at the County's current bulk water and  
5       wastewater rate. Bulk water and wastewater capacity  
6       payments are made to Aqua, and then Aqua issues payment  
7       to the County in the same amount collected from you or  
8       any other secondary developer of Flowers Plantation.  
9       Again, please refer to the bulk water and bulk wastewater  
10      agreements for further details."

11          Q        So you would assume, if he referred her to the  
12      bulk wastewater agreement, that people at Aqua are  
13      looking at that agreement?

14          A        I'm assuming that Mr. Roberts had read the  
15      agreement, if that's what you're asking.

16          Q        But that was in 2015, and now 2018, until the  
17      Public Staff met with you in May and pointed out you're  
18      not collecting for that pump station and lift station,  
19      three -- more than three years had transpired and Aqua  
20      had still not billed for the pump station and lift  
21      station, correct?

22          A        I don't think this is referring to the --

23          Q        No. It's referring to --

24          A        -- 2000 lots --

1 Q -- capacity, but the fact that he's referring  
2 her to the bulk wastewater agreement, wouldn't you accept  
3 before you refer someone to agreement it would be a good  
4 idea to read that agreement so you know what's in it?

5 A He was probably referring to specific parts of  
6 it. I can't say what he was -- if he was overly familiar  
7 with the whole contract or agreement or what he had read,  
8 but when he was referring to the capacity, I think that's  
9 what he was referring -- mentioning to her to look at.

10 Q I would agree with that, but don't you feel  
11 that it's reasonable and prudent if you -- that you read  
12 the entire contract and not just one clause so you know  
13 really what's in the contract?

14 A I will tell you from personal experience, no.  
15 I had -- when we initially approached the Public Staff to  
16 discuss about the purchase of the extra -- all of the  
17 500,000 gallons of capacity to have some savings for the  
18 customer, I was only familiar with the terms of the  
19 agreement that refer to the acquisition of the capacity,  
20 the expiration of the 20 years, and that was back in  
21 November when we met with you.

22 Q And the contract is only 13 -- 12-1/2 pages,  
23 isn't that correct, subject to check?

24 A There's several. There's bulk --

1 Q There's bulk wastewater. The bulk -- the one  
2 we've been arguing about or discussing is the bulk  
3 wastewater service agreement, May 14, 2002, Aqua Junis  
4 Cross Examination Exhibit 3.

5 A The bulk wastewater service agreement for  
6 Flowers is about 13, 14 -- 13 or 14 pages, yes.

7 Q And it is double spaced; do you agree with  
8 that?

9 A I would agree with that.

10 (Off-the-record discussion.)

11 MR. GRANTMYRE: Okay. I gotcha. I gotcha.

12 Q Now, going up to the second paragraph on this  
13 page, page 2, about six lines from the bottom the  
14 paragraph starts, "If you desire to purchase 500,000  
15 gallons." Can you please read that to the end of the  
16 paragraph?

17 A I'm sorry. Which exhibit? Are you still on  
18 the letter from Ms. Flowers -- or from --

19 Q Yeah, to Ms. Flowers, on page 2.

20 A Okay. And what paragraph?

21 Q About six lines up it says "If you desire to  
22 purchase the 500,000 gallons of wastewater." Can you  
23 please read that sentence to the end of the paragraph?

24 A Six lines up from which paragraph?

1 Q Okay. Six lines from the bottom. It's the  
2 first full paragraph on page 2.

3 A "Please note that Aqua's monthly rates"?

4 Q No, no, no, no.

5 COMMISSIONER BROWN-BLAND: It's the paragraph  
6 that starts "The county also recognizes."

7 MR. GRANTMYRE: Yeah. That's the --

8 COMMISSIONER BROWN-BLAND: He's saying it's six  
9 lines from the bottom.

10 MR. GRANTMYRE: That's the paragraph.

11 A "If you desire"? Is that where you are?

12 Q Yeah.

13 A "If you desire to purchase the 500,000 gallons  
14 of wastewater capacity reserved by the County at this  
15 time, please issue payment in the full amount of  
16 \$3,000,000 to Aqua, 500,000 gallons times \$6.00 a gallon,  
17 the current capacity charge, and Aqua will make payment  
18 to the County and request the 500,000 gallons of  
19 wastewater capacity to be reserved for future use at  
20 Flowers Plantation. Otherwise, the capacity can be  
21 purchased, assuming it is available, after the 20-year  
22 period at the time application is made and at the  
23 County's then current capacity fee rate."

24 Q Now, at the time this letter was sent to Ms.



1 Flowers, hadn't Aqua already collected over \$1,000,000 of  
2 these capacity fees? And if so, why would she be  
3 required and why didn't Aqua tell her, if you know?

4 A I'm not aware of the amount, but can you repeat  
5 the rest of the question?

6 Q At the time of this letter in April 2015, isn't  
7 it true that Aqua had already collected over \$1,000,000  
8 of these capacity fees from developers, and why did Aqua  
9 not tell Ms. Flowers that -- and, actually, you had sold  
10 several hundred thousand gallons of the capacity. Why  
11 didn't you -- why didn't Aqua tell her that, if you know?

12 A I'm still not sure I understand the question.

13 Q Well --

14 A I don't know how much we -- I mean, if we  
15 collected 1,000,000, that could possibly be true, but I'm  
16 not sure if I understand the rest of the question.

17 Q Okay.

18 A Why didn't we tell her --

19 Q You have a contract to buy 1,000,000 -- 500,000  
20 gallons, correct, from the County? You can buy up to  
21 500,000.

22 A Up to 500,000 gallons, correct.

23 Q And you've already collected over \$1,000,000  
24 worth of capacity fees from developers to pay for this

1 same capacity at \$6.00 a gallon, whatever number of  
2 gallons that comes out to; isn't that correct?

3 A On the Buffalo Creek side we would have  
4 collected some capacity, but, again, that contract  
5 allowed -- it clearly states that Aqua -- or Heater/Aqua  
6 was allowed to bill the Buffalo --

7 Q Yeah. I'm --

8 A -- or the Neuse Creek Plant. So that Buffalo  
9 Creek flow was going into the plant that we were building  
10 out.

11 Q Okay.

12 A So there would be no need to buy that capacity  
13 when we can fully serve all those people in the existing  
14 plant. And I think the \$6.00 a gallon by Mr. Roberts'  
15 claim, he has no reason to believe that anything other  
16 than that \$6.00 is what should have been billed to the  
17 developer, and that's the management -- we used the best  
18 information management had at the time.

19 Q Of course, you did have some information in the  
20 2009 letter that the numbers seemed to be moving numbers;  
21 would that be correct?

22 A Right. And it hasn't changed. There has been  
23 no wastewater treatment plant upgrade by the County since  
24 2006. The numbers in there clearly stated the difference

1 between transmission fees and wastewater capacity. The  
2 original agreement mentions nothing about transmission  
3 fees, except for the fact that it will be billed in a  
4 bulk commodity charge. It is silent to that. And it  
5 says specifically the wastewater treatment plant upgrade,  
6 which has not occurred since 2006. No reason to believe  
7 that number should be changed.

8 Q And the paragraph you read earlier, I'll just  
9 read part of it again, it says, "Bulk water and  
10 wastewater payments are made to Aqua, and then Aqua  
11 issues payment to the County in the amount collected from  
12 you or any other secondary developer." Now, when I read  
13 that, and it says "and then Aqua issues payment," I would  
14 assume that it means that once someone pays you, then  
15 Aqua turns around and issues payment. Isn't that a  
16 reasonable interpretation?

17 A You're assuming it's immediate. There is no  
18 time frame in here, "then issues payment." You receive  
19 it, and when we need it, we will go get it, which is the  
20 prudent thing to do in operating this business.

21 Q But for some of these you waited 12 years. You  
22 first starting collecting it in 2006.

23 A Right, but we were treating all of that  
24 capacity, as was provided for in that contract, in the

1 Neuse River plant. And that's -- that was --  
2 unfortunately, that's one of the complications of this  
3 contract. It tried to dictate all the terms, breaking it  
4 out between the western side of the Neuse Colony side and  
5 the Buffalo Creek side, and it causes a lot of  
6 complications because the rates being charged to the  
7 developers on both sides are different, even though the  
8 flows are going to the same plant.

9 I think what's interesting is that the  
10 wastewater treatment plant, and I had mentioned this in  
11 my testimony, the buildout of that plant is actually less  
12 than the CIAC we've collected through it for today. The  
13 purchase of that recent capacity amount with Johnston  
14 County at 250,000 gallons is very near the amount of  
15 Buffalo Creek capacity that we purchased within the last  
16 couple months.

17 Q Now, in this other -- I guess it would be the  
18 fourth page of this exhibit -- I'll refer you to an email  
19 from Charles R. Poole who we would agree is Ruffin Poole;  
20 is that correct?

21 A That's correct, but what are you referring to?  
22 What --

23 Q It's this email dated October 25. It's page --  
24 numbered page 4, this --

1 A Do I have a copy of that?

2 Q This exhibit, the same exhibit. It is Becker  
3 Cross -- Rebuttal Cross Exam Number 9. It's attached to  
4 the letter we've been discussing.

5 A The one --

6 Q The one --

7 A -- from Mr. Roberts on the back?

8 Q Yeah.

9 A Oh, I'm sorry. I didn't realize that there was  
10 other ones here.

11 Q I'm sorry.

12 A I have it. Thank you.

13 Q And so you agree that this -- and do you know  
14 who Reid Stephenson is?

15 A I believe he might have been the engineer,  
16 possibly, for Ms. Flowers.

17 Q Will you accept, subject to check, that he is  
18 her development manager and was working for her then and  
19 is still working for her, and met with your people back  
20 in June or July? I believe it was July.

21 A I would accept that, subject to check, yes.

22 Q Can you please read -- and this is an email  
23 from Ruffin Poole to Reid Stephenson. Can you read the  
24 highlighted section about two-thirds of the way down?

1           A       "Sewer capacity fees are calculated as follows:  
2       For those lots located on the eastern side of the  
3       project, 500,000 gallon per day side" -- single family --  
4       "SFRE times 240 gallons per day per SFRE, times \$6.00 per  
5       gallon. Aqua receives this payment from the developer  
6       and then issues a check to the County in the same amount  
7       of monies for the reservation of the capacity purchased."

8           Q       And, again, they used the words "and then  
9       issues," but, again, as you say, there's no time frame,  
10      but that was almost five years ago or slightly less than  
11      five years from when you finally issued a check to the  
12      County in late June; is that correct?

13          A       I would agree with that.

14                   COMMISSIONER BROWN-BLAND: All right, Mr.  
15      Grantmyre. We're going to stop you right there for  
16      today. We will come back on Monday and pick up with  
17      cross of Mr. Becker on rebuttal. And we will attempt to  
18      be back here -- you all should be here and ready to go at  
19      9:30. We will attempt to be here as close to that time  
20      as we, the Commissioners, can be.

21                   And a housekeeping matter, Commissioner  
22      Charlotte Mitchell has been here present for all of this  
23      hearing except that portion heard today, as well as she  
24      attended all the public hearings and participated

1 actively in the case. Are the parties -- will the  
2 parties agree that she can read this portion of the  
3 testimony that she missed and continue to participate in  
4 this case? Is there any objection?

5 MS. SANFORD: Aqua agrees. No objection.

6 MR. GRANTMYRE: Absolutely, we agree.

7 MS. TOWNSEND: Attorney General agrees.

8 COMMISSIONER BROWN-BLAND: All right. With  
9 that said, we're recessed until 9:30 Monday.

10 (The hearing was adjourned, to be reconvened  
11 on Monday, September 24, 2018 at 9:30 a.m. )

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STATE OF NORTH CAROLINA

COUNTY OF WAKE

C E R T I F I C A T E

I, Linda S. Garrett, Notary Public/Court Reporter, do hereby certify that the foregoing hearing before the North Carolina Utilities Commission in Docket No. W-218, Sub 497, was taken and transcribed under my supervision; and that the foregoing pages constitute a true and accurate transcript of said Hearing.

I do further certify that I am not of counsel for, or in the employment of either of the parties to this action, nor am I interested in the results of this action.

IN WITNESS WHEREOF, I have hereunto subscribed my name this 26th day of September, 2018.

*Linda S. Garrett*  
Linda S. Garrett, CCR  
Notary Public No. 19971700150



**FILED**

**SEP 26 2018**

Clerk's Office  
N.C. Utilities Commission