

1 PLACE: Dobbs Building, Raleigh, North Carolina
2 DATE: December 3, 2019
3 DOCKET NO.: W-354, Sub 364
4 TIME IN SESSION: 9:30 A.M. TO 12:29 P.M.
5 BEFORE: Commissioner ToNola D. Brown-Bland, Presiding
6 Chair Charlotte A. Mitchell
7 Commissioner Lyons Gray
8 Commissioner Daniel G. Clodfelter
9 Commissioner Kimberly W. Duffley
10 Commissioner Jeffrey A. Hughes

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IN THE MATTER OF:
Application by
Carolina Water Service, Inc. of North Carolina,
4944 Parkway Plaza Boulevard, Suite 375,
Charlotte, North Carolina 28217
for Authority to Adjust and Increase Rates for Water
and Sewer Utility Service in
All of its Service Areas in North Carolina

VOLUME 8

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

2 COMMISSIONER BROWN-BLAND: Good morning. Let's
3 come to order. Where is the witness? If the witness
4 will return to the stand. He wanted to run away, but you
5 can't hide.

6 MR. D'ASCENDIS: I just want a tough start.

7 DYLAN W. D'ASCENDIS; Having been previously sworn,
8 Testified as follows:

9 COMMISSIONER BROWN-BLAND: And we're back on
10 redirect. Mr. Bennink?

11 MR. BENNINK: No redirect.

12 COMMISSIONER BROWN-BLAND: No redirect? All
13 right. Questions from the Commission? Chair Mitchell.

14 EXAMINATION BY CHAIR MITCHELL:

15 Q Good morning, Mr. D'Ascendis.

16 A Good morning.

17 Q Just a few questions for you. So we've heard a
18 lot of testimony over yesterday, and I suppose we'll hear
19 some more this morning, about the difference between
20 using forecasted yields as opposed to current yields.
21 Can you tell us, to the extent that you can off the top
22 of your head -- and if you need to provide a late-filed
23 exhibit, that would also be acceptable -- the effect on
24 each of your model's results using current yields rather

1 than forecasted yields?

2 A Sure. I'll do it off the top of my head. So
3 my updated risk free rate is 2.64. Mr. Hinton's is 2.53,
4 if I'm not mistaken, and I could check, but it's
5 thereabouts. So the difference in the results would be
6 any -- so let's say my indicated result before adjustment
7 is 9.8. Since it would only affect the risk premium and
8 the CAPM, then it wouldn't -- it wouldn't entirely affect
9 the DCF or the comparable earnings model. I would think
10 it would probably be around five basis points, but I can
11 file a late-filed exhibit with the exact number.

12 Q Okay. I think that would be helpful.

13 A Okay. And just one thing about the necessity
14 to use projected interest rates, and the key is investor
15 expectations, we heard a lot of that about -- when you
16 were speaking with Mr. Hinton. And it's funny that he
17 wants all these investor expectations of risk, but the
18 expectations of what's going to happen in the future when
19 it involves risk free rates is wrong. So you can't have
20 it both ways. If you're going to use expected risk -- if
21 you're going to use expected growth rates in the DCF
22 model, if you're going to say that -- you know, use
23 forecasts in other portions, you have to be consistent
24 and you should be using forecasts I would say

1 exclusively, but at least look at them both.

2 And as far as economic theory and the cost of
3 capital, it's expectational and forward looking, and most
4 of the models are based on the efficient market
5 hypothesis, which means all pricing information, all
6 market information is affected by publicly available
7 information, and useful information is used to determine
8 an ROE. If interest rate forecasts weren't useful, the
9 market would have taken them out already. So that just
10 shows that it is, in fact, useful and there's several
11 forecasting, like an RBS forecast, a Blue Chip forecast.
12 There's a lot of -- there's a lot of -- or RBC financial
13 forecast. There's a lot of forecasts that are there, and
14 if they weren't -- if they weren't useful, they wouldn't
15 be used. They would have been knocked out of the market.

16 Q I want to ask you about a statement that you
17 made yesterday, at least I think I heard you make. You
18 indicated that utilities are no -- utilities are no
19 longer a proxy for bonds. You said that is not an
20 accurate statement or situation anymore, utility stocks
21 are no longer a proxy for bonds. Can you expand on that?
22 Help me understand. One, confirm that I heard you
23 correctly and, two, explain what's changed.

24 A Okay. It's my opinion. It's not readily --

1 you know, everybody --

2 Q Understood.

3 A -- has their -- they're entitled to their
4 opinion, but if you -- usually, when you're looking at
5 returns, and pretty much the basis of the discounted cash
6 flow model is the expectation of dividends which is
7 contained in the dividend yield, and that's where your
8 income return is. And right now, bonds utilities are
9 actually performing higher -- you know, you get a higher
10 yield on utility bonds than you do utility stocks. So if
11 they were a substitute, they would be comparable, and
12 right now they are not and they haven't been for at least
13 a year or two.

14 Q Okay. I have some of these questions I've
15 received from Staff, so I'm going to do my best to get
16 through them. But in developing your CAPM and your risk
17 premium models, your measures of predicted risk -- market
18 risk premiums were about 2.7 percent higher than
19 historical observations. What gives you confidence?
20 Help us understand your opinion that such an improvement
21 in equity risk premiums is likely to occur going forward.

22 A Well, it's based on actual -- if you look at
23 both what Mr. Hinton said about, while -- what's the
24 basis of his risk premium approach is that -- and I think

1 that I went over this a little bit yesterday. As
2 interest rates go down, equity risk premiums go up, and
3 as they go down, the -- if the market is expected to earn
4 what it has earned in the past, so let's say, you know,
5 the average is around 12 percent, that equity risk
6 premium based on just the current rate of 2, the market
7 risk premium would be 10, which is above what it has been
8 historically. But that's just based on -- that's just
9 based on the change of interest rates.

10 Q Okay. Are you aware of or can you provide us
11 examples of if and how the predictive RPM and the
12 empirical CAPM models are used by analysts and investors
13 in other contexts?

14 A Yes. I'm going to have to turn to my direct
15 testimony, though. Let me just get this paper out of the
16 way. And I'll start with the ECAPM once I get there. I
17 just want to make sure I point you guys to the right
18 place. All right. So starting on page 32 of my direct
19 testimony I discuss the empirical test of the CAPM and I
20 cite to a Fama and French article, and the empirical
21 results are shown on page 33, and it shows that -- the
22 solid line on that Figure 2 is what has actu--- what was
23 predicted by the CAPM, and the dotted line is what was --
24 actually happened, what actually occurred. Now, I cited

1 a 2004 article, but the research on this empirical --
2 what has gone on is -- goes all the way back to when they
3 established the Sharpe Lintner model, which is now
4 commonly called the CAPM.

5 And I could provide some earlier empirical
6 analyses, but this has always been an issue with the CAPM
7 and, number one, that's why you use multiple models.
8 Number two is if you're using a CAPM, you would be -- you
9 would be aware of this model. Now, the measurements, the
10 weightings, the 25/75 weighting that I use to -- for the
11 CAPM may not be in any type of academic textbook, but
12 there is the theory, and it is basically that the risk
13 free rate may not be the right intercept for the CAPM.
14 And I'm going to say it's Martin Miller who said that in
15 the '60s, and that it was actually a beta -- it's a
16 portfolio of companies with a zero beta which would
17 represent the flatter dotted line. So the studies go
18 back, and if any type of scholars or people that would
19 actually -- institutional investors, maybe not ordinary
20 investors, but they would know about it and use it.

21 Q Okay.

22 A As far as the predictive risk premium model,
23 that's based on the Garch Method which was, I guess,
24 discovered by Robert Engle in the '80s, and basically

1 that is -- it's based on variance, being able to predict
2 future variance, given past variance. And basically the
3 theory of it goes you have clusters of volatility. It's
4 high volatility clusters and low volatility clusters.
5 The only problem is -- now, once you're in a cluster, you
6 could pretty much predict what the next value is going to
7 be, but the only problem is, is when you switch from a
8 high to a low period of volatility.

9 But I could show -- I could show that if you --
10 if you use the PRPM before and after, so say if I ran a
11 PRPM for March, the return in April would match or be
12 close to what April happened for the market, depending --
13 and it depends on whether or not there's a massive switch
14 in, say, volatility. But there is -- they've been doing
15 this in Wall Street since the '80s, the Garch model.

16 And I guess -- I guess I could add, we have --
17 we published it as applied to utilities in, I want to
18 say, December 2011 or December 2012, and there hasn't
19 been any type of rebuttal or response to it in the
20 academic literature. Since then we've published two
21 other academic articles and peer-reviewed journals on the
22 subject, and they have not been rebutted in the academic
23 literature.

24 Q Can you be more specific? When you say "we,"

1 who published those articles?

2 A So I was a co-author on two of the three
3 articles. The other two authors were Pauline Ahern,
4 which was mentioned by Mr. Grantmyre yesterday, and Dr.
5 Richard Michelfelder out of Rutgers University. And then
6 the first article, the one that established the PRPM, I
7 was a research assistant on it, and it was Mr. -- Dr.
8 Michelfelder, Ms. Ahern, and Frank Hanley, who has also
9 been mentioned, I think, in this hearing yesterday.

10 Q And did you cite those articles in your
11 testimony?

12 A I think two out of the three, but I could -- I
13 could provide the -- I could provide all three if you'd
14 like. Or no, the third one I did in my rebuttal because
15 it has to do with the decoupling issue.

16 Q Okay. Thank you. So we've heard, both from
17 you and Mr. Hinton, about the analysis you did using the
18 coefficient of variation. I think that's correct, the
19 coefficient of variation?

20 A Yes.

21 Q And Mr. Hinton's position is he wasn't
22 persuaded by that analysis, at least that's what he
23 testified -- indicated in his testimony. Can you help us
24 understand that analysis at a high level and explain why

1 you cho--- why you analyzed the risk factor that you did
2 and not others?

3 A Sure. I'll turn to my direct testimony, just
4 so just I can get there. Okay. So it would be 46 and 47
5 on my direct testimony, but I think I also -- I defined
6 the coefficient of variation on page 40 and Footnote 36,
7 and that's just the coefficient of variation is used by
8 investors and economists to determine volatility. You
9 basically take the mean and the standard deviation and
10 then you get the -- you get the coefficient of variation.
11 You can see what the percentages are.

12 Now, why I choose -- chose net profit was net
13 profit would take into account all factors of risk
14 because that's earnings, and they drive shares and things
15 like that. And the second one was that the data I used
16 was from Value Line, so everybody could get it and look
17 at it and validate it. So those were the two reasons why
18 I used it. One was net profits, you know, they cut out
19 everything and its earnings, and the volatility of
20 earnings is pretty much the definition of risk. And I
21 used the Value Line because of the ease of, you know,
22 getting it to other parties if they wanted to take a look
23 at it and test it.

24 Q Okay. Thank you. Okay. Last question. Help

1 us understand why you think that current interest rates
2 or yields don't incorporate expectations of future
3 changes in the market.

4 A Well, I guess I wouldn't characterize it as
5 that. I would characterize that it's kind of like using
6 -- and I'm going to draw a parallel here. It's kind of
7 like using -- in a dividend yield, right, you're using
8 price and dividend one over it. So the dividend may --
9 or the dividend or the bond yield may indicate now, but
10 what you need to do is look in the future. They have
11 current and expected, but not -- I guess I'm not putting
12 it right, but that -- but they don't have -- they don't
13 have the type of -- I'm trying to think of how to convey
14 this. Now, I quoted the EMH and I said that known and
15 measurable things in the market reflect the current
16 prices. So that would be current prices. You have to
17 use expected for the bond yield for cost of capital
18 purposes. I feel like that was a little disjointed, but
19 that's kind of -- that's my answer.

20 Q Okay. Thank you. I have nothing further.

21 A Thank you.

22 COMMISSIONER BROWN-BLAND: Mr. D'Ascendis, it
23 looks like we've come to the end of your testimony.

24 THE WITNESS: Thank you.

1 COMMISSIONER BROWN-BLAND: Oh, I'm sorry.

2 Questions on Commission's questions?

3 MR. GRANTMYRE: I go first.

4 EXAMINATION BY MR. GRANTMYRE:

5 Q You said that you don't consider utility stocks
6 in response to Commissioner (pulls mic closer) -- okay.
7 In response to Commissioner Mitchell's questions, you
8 don't consider utility stocks a proxy for bonds anymore.
9 Can you explain the difference in the tax rate to the
10 individual investor if he has bonds, whether it be
11 utility bonds or Treasury bonds, what -- the tax rate
12 they would pay? Wouldn't they pay ordinary income, which
13 could be as high as, I believe, 28 percent or higher is
14 the highest tax rate they pay? They pay ordinary income
15 rates; is that correct?

16 A I don't know.

17 Q And you will agree that dividends from a
18 utility or any other company pays a 15 percent tax rate?

19 A The capital gains tax.

20 Q Well, the dividend rate is 15 percent.

21 A That would be the capital gains tax.

22 Q Okay. But anyway, it is 15 percent?

23 A That's all based on government action. That
24 could change -- that could change in a day, so, but I

1 mean --

2 Q But it would take an act of Congress to change
3 the tax code; is that correct?

4 A Yes.

5 Q And you would agree or will you accept, subject
6 to check, that Duke Energy Corporation is paying a
7 dividend north of 4 percent?

8 A If you look at the average of water companies,
9 their dividend yield is 1.7 percent, which is almost
10 three percentage points less than what the A-rated yield
11 is. So if you're picking and choosing one company out of
12 -- I guess it would be close to 70 publicly-traded
13 utility companies, yes, you're going to find one that's
14 more -- has a higher yield than the Treasury bond or the
15 A-rated bond, but in average, the yields -- the dividend
16 yields don't match the bond yields.

17 Q But you would accept, subject to check, that
18 Duke Energy Corporation's dividend yield is north of 4
19 percent?

20 A Yes, subject to check.

21 Q Now, you mentioned several articles that you
22 participated in. Did you participate in the writing of
23 all three articles?

24 A I did.

1 Q And also Pauline Ahern, was she in all three or
2 two?

3 A Three.

4 Q And Mr. Hanley -- Fred (sic) Hanley, he was in
5 how many of the articles?

6 A Frank Hanley was in the first article.

7 Q Okay. Now, these articles, you would admit
8 that you testify almost exclusively for companies in rate
9 cases on cost of capital?

10 A What does that have to do with a peer-reviewed
11 article?

12 Q Okay. The question is, do you testify almost
13 exclusively for companies in rate cases on cost of
14 capital?

15 A Yes.

16 Q And the same thing would be true of Pauline
17 Ahern. She worked at AUS Consultants, and now she has
18 some function at ScottMadden; is that correct?

19 A That's correct.

20 Q And Frank Hanley, is he still testifying in
21 cost of capital and rate cases?

22 A He is not.

23 Q But when he did -- he did testify in the past;
24 is that correct?

1 A That's -- yes.

2 Q Was he with AUS Consultants?

3 A He was one of the founding members, I think,
4 back in the '60s.

5 Q And when he testified in cases, he also
6 primarily testified for the utilities on cost of capital?

7 A On occasions. We've also -- at the end we were
8 also advising commissions such as Alaska, Alaska
9 Commission.

10 Q Okay. Thank you. I have no further questions.

11 A Thank you.

12 COMMISSIONER BROWN-BLAND: Questions --

13 MR. BENNINK: No questions.

14 COMMISSIONER BROWN-BLAND: -- on Commission
15 questions?

16 MR. BENNINK: No questions.

17 COMMISSIONER BROWN-BLAND: Now Mr. D'Ascendis,
18 you've come to the end. Any motions before we excuse the
19 witness?

20 MR. BENNINK: Yes. We would like to move into
21 evidence Mr. D'Ascendis' direct and rebuttal exhibits,
22 please. And I did have one question for clarification.
23 As I understand it, Chair Mitchell requested at least one
24 late-filed exhibit, the first dealing with the issue of

1 forecasted yields versus current yields, correct? And
2 the question is, does the Commission desire to have Mr.
3 D'Ascendis provide a late-filed exhibit consisting of the
4 three articles that were referenced in his testimony?

5 COMMISSIONER BROWN-BLAND: Yes. Chair Mitchell
6 indicates yes --

7 MR. BENNINK: We would --

8 COMMISSIONER BROWN-BLAND: -- but I believe the
9 citations are in the record.

10 CHAIR MITCHELL: If they aren't in there, then
11 no.

12 COMMISSIONER BROWN-BLAND: If the citations are
13 in the record, no.

14 MR. BENNINK: Do you know if the citations are
15 in the record for all three?

16 THE WITNESS: I'll take a quick look, but I
17 know the first and the third are.

18 COMMISSIONER BROWN-BLAND: So Mr. Bennink, your
19 motion will be allowed, and the exhibits --

20 THE WITNESS: The second one isn't. Sorry.

21 COMMISSIONER BROWN-BLAND: -- the direct and --
22 the exhibits, direct and rebuttal, will be received into
23 evidence.

24 MR. BENNINK: Thank you.

1 (Whereupon, D'Ascendis Exhibit 1 and
2 D'Ascendis Rebuttal Exhibit 1 were
3 admitted into evidence.)

4 THE WITNESS: I'll take care of the second one.
5 The second one is --

6 COMMISSIONER BROWN-BLAND: The second article
7 is not in the record, so we would request that you
8 provide that as a late-filed exhibit.

9 THE WITNESS: Okay. Thank you. Thanks for the
10 opportunity.

11 COMMISSIONER BROWN-BLAND: All right.
12 You're --

13 MR. GRANTMYRE: The Public Staff would move
14 that Public Staff Cross -- D'Ascendis Cross Examination
15 Exhibits 1 through 10 be admitted into evidence.

16 COMMISSIONER BROWN-BLAND: That motion is
17 allowed, and they will be received into evidence.

18 (Whereupon, Public Staff D'Ascendis Cross
19 Examination Exhibits 1-10 were admitted
20 into evidence.)

21 COMMISSIONER BROWN-BLAND: All right. Okay.
22 And Mr. D'Ascendis is excused. He's already fled the
23 scene.

24 (Witness excused.)

1 COMMISSIONER BROWN-BLAND: All right. Have we
2 determined -- have we determined -- are we going to do
3 the --

4 MS. SANFORD: Yes. We would like to call Bryce
5 Mendenhall now to address the consumer question that the
6 Commission had posed or any other questions the
7 Commission has.

8 COMMISSIONER BROWN-BLAND: All right. I was
9 going to say I think we've developed a few more
10 questions.

11 MS. SANFORD: Okay.

12 COMMISSIONER BROWN-BLAND: All right.

13 MS. SANFORD: So with that, I'll call Bryce
14 Mendenhall.

15 J. BRYCE MENDENHALL; Having first been duly sworn,
16 Testified as follows:

17 DIRECT EXAMINATION BY MS. SANFORD:

18 Q Good morning.

19 A Morning.

20 Q Would you state your name and business address,
21 please.

22 A Jonathan Bryce Mendenhall, 4494 Parkway Plaza,
23 Charlotte, North Carolina.

24 Q Thank you. Where are you employed and in what

1 capacity?

2 A Carolina Water Service of North Carolina, Vice
3 President of Operations.

4 Q Did you cause to be filed in this docket direct
5 testimony consisting of 12 pages on June 28, 2019?

6 A I did.

7 Q Do you have any corrections or changes to make
8 to that testimony?

9 A No.

10 Q If I were to ask you the same questions today,
11 would your answers be the same as when you filed?

12 A Yes.

13 MS. SANFORD: Commissioner Brown-Bland, we
14 request that this testimony be copied into the record as
15 if given orally from the stand.

16 COMMISSIONER BROWN-BLAND: That motion is
17 allowed, and it will be received into evidence.

18 MS. SANFORD: Thank you.

19 (Whereupon, the prefiled direct testimony
20 of J. Bryce Mendenhall was copied into the
21 record as if given orally from the stand.)

22

23

24

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. W-354, SUB 364

In the Matter of
Application of Carolina Water Service, Inc.)
of North Carolina for Adjustment of Rates)
and Charges, Approval of a Conservation)
Rate Pilot Program, and Modifications to)
Certain Terms and Conditions for the)
Provision of Water and Sewer Service)

DIRECT TESTIMONY OF J. BRYCE
MENDENHALL ON BEHALF OF
CAROLINA WATER SERVICE, INC.
OF NORTH CAROLINA

OFFICIAL COPY

Dec 06 2019

**Appendix 9
SCHEDULE G-2**

June 28, 2019

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 **A.** My name is J. Bryce Mendenhall, and my business address is
3 4494 Parkway Plaza Boulevard, Suite 375, Charlotte North Carolina 28217.

4 **Q. WHERE ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5 **A.** I am Vice President of Operations for Carolina Water Service, Inc. of North
6 Carolina (“CWSNC” or “Company”), Tennessee Water Service, Inc. in
7 Tennessee, and Blue Granite Water Company in South Carolina, all of which
8 are subsidiaries of Utilities, Inc. (“UI”).

9 **Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL**
10 **BACKGROUND?**

11 **A.** I have been employed with CWSNC since March of 2017. I graduated from
12 Appalachian State University in 1993 with a degree in Geographic
13 Information Systems and Cartography and have been employed in the
14 water and wastewater profession for twenty-six years collectively. Prior to
15 my employment with the Company, I worked for more than a decade as the
16 Utilities Director for Franklin County, North Carolina.

17 **Q. WHAT ARE YOUR DUTIES WITH CWSNC?**

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

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

3 **A.** The purpose of my testimony is to provide the North Carolina Utilities
4 Commission (“Commission” or “NCUC”) with a brief overview of the
5 operations of CWSNC, including capital improvements made since the last
6 general rate case, and an update on the Company’s investment in new
7 technology in support of operations.

8 **Q. PLEASE BRIEFLY DESCRIBE THE COMPANY’S WATER AND**
9 **WASTEWATER OPERATIONS IN NORTH CAROLINA.**

10 **A.** CWSNC is a wholly-owned subsidiary of UI. CWSNC is an investor-owned
11 public utility pursuant to North Carolina General Statute (“G.S.”) 62-3, does
12 business as a regulated water and sewer utility in North Carolina, and is
13 subject to the regulatory oversight of the Commission. The Company has
14 provided water and sewer service in North Carolina for 53 years and applies
15 in this case for an adjustment of its water and sewer rates and charges for
16 all of the Company’s service areas in North Carolina.

17 The Company is the second-largest Commission-regulated water and
18 sewer public utility in North Carolina. CWSNC presently serves
19 approximately 34,915 water customers and 21,403 sewer customers in
20 North Carolina and operates approximately 93 water systems and 38 sewer
21 systems in the State. The Company's service territory spans 38 counties in

1 North Carolina, from Bear Paw in Cherokee County to Corolla in Currituck
2 County. Consequently, CWSNC, as a regulated public utility, has a
3 continuing responsibility to upgrade the Company's widely-dispersed utility
4 infrastructure and make necessary improvements to ensure its ability to
5 continue to consistently provide adequate, efficient, and reasonable service
6 to its customers as required by G.S. 62-131(b).

7 The Company also has an obligation to comply with changing
8 environmental, health, and safety regulations and to fulfill its overall
9 obligation to provide quality, dependable service pursuant to its certificate
10 of public convenience and necessity. To that end, CWSNC has invested
11 more than \$22 million in capital improvements since the last general rate
12 case. In addition, the Company continues to fund required operations and
13 expense ("O&M") increases to ensure quality and compliant service.

14 **Q. PLEASE DESCRIBE THE COMPANY'S MOST SIGNIFICANT**
15 **INVESTMENTS SINCE ITS LAST GENERAL RATE CASE.**

16 **A.** Since its last general rate case, the most significant capital improvement
17 projects in which the Company has invested are: (1) Connestee Falls
18 Wastewater Treatment Plant replacement in Transylvania County; (2) Nags
19 Head Wastewater Treatment Plant in Dare County; (3) Connestee Falls Lift
20 Station replacement; (4) Mt. Carmel collection system rehabilitation in
21 Buncombe County; and (5) Fairfield Harbour Lift Station Replacements in
22 Craven County. I will address each of these in further detail below.

1 **Q. PLEASE EXPLAIN THE CONNESTEE FALLS WASTEWATER**
2 **TREATMENT PLANT REPLACEMENT PROJECT.**

3 **A.** The Conneestee Falls Wastewater Treatment Plant project involves the
4 installation of a “sequencing batch reactors” treatment facility which will
5 replace the current wastewater treatment plant. The current wastewater
6 treatment plant is a 300,000 gallons per day (“gpd”) concrete plant installed
7 in the early 1970s. The plant is located in the mountains and is exposed to
8 winter weather, including cold, ice and snow. These conditions have led to
9 the serious erosion of exposed areas of concrete, most significantly the
10 above-the-waterline walls and walkways, due to years of “freeze/thaw”
11 cycles. The concrete deterioration has reached the point of “end of life” of
12 the asset, and the current plant has presented a high consequence of
13 failure. The build-out needs of the community require 460,000 gpd of
14 wastewater treatment capacity and the new plant is being built adjacent to
15 the existing plant. The estimated cost of the project is \$7,122,052, and it is
16 expected to be in-service by approximately July 31, 2019.

17 **Q. PLEASE DESCRIBE THE NAGS HEAD WASTEWATER TREATMENT**
18 **PLANT REPLACEMENT PROJECT.**

19 **A.** The Nags Head Wastewater Treatment Plant project consists of the
20 installation of a new membrane treatment facility to allow for effluent
21 disposal below required nitrate levels in groundwater monitoring wells. The
22 purpose of this project is to modify the existing Aeromod 0.400 million gallon

1 per day (“mgd”) plant with membrane filtration to provide reuse-quality
2 effluent to meet groundwater nitrate and Total Dissolved Solids (“TDS”)
3 compliance testing limits. In 2018, the Division of Water Quality, North
4 Carolina Department of Environmental Quality (“DWQ”), issued a Notice of
5 Violation requiring the plant to comply with current groundwater testing
6 limits of 500 mg/L for TDS and 5 mg/L for Nitrates. The plant currently
7 meets the wastewater treatment plant effluent limits but has been unable to
8 meet the imposed groundwater limits for the monitoring wells. Should the
9 new facility not be constructed, the risk of imposition of severe penalties
10 and/or a consent decree is high. The estimated cost of the project is
11 \$6,550,735, and it is expected to be in-service by approximately August 31,
12 2019.

13 **Q. WHAT IS THE CONNESTEE FALLS LIFT STATION REPLACEMENT**
14 **PROJECT?**

15 **A.** This project consists of converting four Davco dry can lift stations at the
16 Conneestee Falls Subdivision to typical submersible lift stations. The current
17 lift stations are in need of replacement due to their age and condition
18 assessment ratings of “poor” to “very poor.” These assets, installed in 1973,
19 are currently 46 years old. Despite regular maintenance, they are past their
20 useful life and have become unreliable. The pump and motors, which have
21 been repaired or replaced numerous times over the past decade, are good

1 candidates for replacement with NEMA¹ premium motors. Customers will
2 specifically benefit from the Connestee Falls lift station replacement project
3 because it will help prevent a sanitary sewer overflow. This is critical, due
4 to the severe impact such an event would have on Ticoa and Atagahi Lakes.

5 **Q. PLEASE EXPLAIN THE MT. CARMEL COLLECTION REHABILITATION**
6 **PROJECT.**

7 **A.** This project involves the replacement of approximately 775 feet of existing
8 gravity sewer truss and PVC main in the Mt. Carmel collection system due
9 to structural issues and bellies in the pipe². This project directly addresses
10 the concerns of Ms. Connie Brown, a CWSNC customer who cited frequent
11 pumping by a septic truck near her Mt. Carmel home. The Mt. Carmel
12 collection system is approximately 40 years old, and deficiencies in this
13 section include broken pipes and severe sags or bellies contributing to very
14 low flows. The Commission will recall that in the Company's past rate case
15 hearing, numerous customers complained about the truck seen along this
16 street, the use of which was required to help with the collection main
17 back-up issues. The new collection mains will be installed by using trench
18 installation methods, with 8" ductile iron pipe. Other aspects of the project
19 include the replacement of seven (7) manholes, installation of sixteen (16)

¹ National Electrical Manufacturer Association.

² See Final Order dated February 21, 2019, NCUC Docket No. W-354, Sub 360, Pages 19-20, and Ordering Paragraph 11, Page 111.

1 service laterals, and repaving the road to North Carolina Department of
2 Transportation (“DOT”) standards.

3 **Q. PLEASE DESCRIBE THE FAIRFIELD HARBOUR LIFT STATION**
4 **REPLACEMENT PROJECT.**

5 **A.** This project consists of the conversion of five lift stations at the
6 Fairfield Harbour Subdivision to submersible lift stations. The current lift
7 stations are Fairbanks Morse dry can pump stations, and they are in critical
8 need of replacement due to their poor condition. The existing lift stations,
9 at approximately 38 years old, have exceeded the typical life-expectancy of
10 this type of lift station. Each station shows severe corrosion and the
11 reliability of the mechanical and electrical systems has been compromised.
12 Additionally, the pump motors are more than 30 years old and do not meet
13 current efficiency standards. Customers will benefit by the replacement with
14 NEMA premium motors, potentially resulting in annual energy savings.

15 **Q. PLEASE PROVIDE AN UPDATE ON THE COMPANY’S AUTOMATED**
16 **METER READING (“AMR”) PROGRAM.**

17 **A.** CWSNC strives to deliver service to our customers in an efficient manner
18 while maintaining employee safety and customer satisfaction. To meet
19 those challenges, CWSNC continues to expand its AMR meter footprint in
20 our mountain systems. Specifically, in 2019, projects were set in motion to
21 install approximately 2500 meters in the Connestee Falls and Sapphire
22 Valley Subdivisions. Benefits of AMR technology to customers and the

1 Company include: (1) customer satisfaction with data and billing accuracy;
2 (2) improved customer service; (3) reduction in re-read/re-billing;
3 (4) employee safety, especially during hazardous weather events;
4 (5) replacement of inaccurate meters which can improve non-revenue water
5 percentages; and (6) customer interaction with respect to personal
6 consumption habits and trends. While AMR technology would be beneficial
7 to CWSNC customers across the state, the mountain area systems notably
8 benefit due to the extreme weather events and related safety hazards that
9 are common in this region.

10 **Q. PLEASE DESCRIBE THE COMPANY'S INVESTMENT IN CERTAIN**
11 **TECHNOLOGIES THAT SUPPORT OPERATIONS.**

12 **A.** The Company's Operations Management System ("OMS") initiative has
13 been led through collaboration between management from UI's Shared
14 Services team and individual business unit operations teams. OMS is a
15 corporate Geographic Information System ("GIS") and Computer
16 Maintenance Management System ("CMMS"), collectively referred to as the
17 OMS within UI. UI and the Company have selected the OMS software from
18 Lucity Inc.

19 The OMS software allows integration of the following systems/programs
20 into one interface: (1) GIS, (2) Customer Care & Billing, (3) Asset Registry,
21 (4) Purchase Order and Timekeeping (currently housed in JD Edwards),
22 (5) Health, Safety & Environmental Incident Reports, (6) Work Orders/Filed

1 Activities and (7) Preventative Maintenance. The OMS software will allow
2 the end-user to view and record information in real-time using an interactive
3 map supported by ESRI ArcGIS, a mapping and analytics platform. Some
4 of the benefits recognized by the Company will be: (1) improved ability to
5 access information and maintain information on assets, (2) improved
6 customer service through real-time work orders and field activities,
7 (3) improved line-of-sight on preventative maintenance, asset conditions,
8 service levels and risk, and (4) better data to support decision-making
9 through improved capital project identification, prioritization and justification.

10 **Q. PLEASE SUMMARIZE THE COMPANY’S CONTINUED EFFORTS TO**
11 **ADDRESS NON-REVENUE WATER.**

12 **A.** The purpose of CWSNC’s Non-Revenue Water (“NRW”) Strategy is to
13 articulate the measures staff will undertake to ensure that the strategy is
14 more financially and operationally sustainable. The NRW Strategy will be
15 embedded within an ethic of continuous improvement and will be reviewed
16 and---as necessary---updated annually by the President of the Atlantic
17 Business Unit and the Vice President of Operations. Policies and
18 procedures may be developed and implemented to effectuate this NRW
19 Strategy. During calendar year 2019, CWSNC performed water audits and
20 helium gas leak detection in the following developments with a
21 concentration on purchase water systems: Carolina Forest, High Vista,
22 Zemosa Acres, and Woodrun.

1 CWSNC has tested over 200,000 linear feet of distribution system water
2 main with nearly 150 sites identified for leak investigation. Several leaks of
3 varying sizes and quantities have been identified and repaired in these
4 systems. CWSNC personnel continue to evaluate the findings generated
5 from the helium leak detection program; additional repairs are underway
6 and are expected to continue.

7 The water audits performed by CWSNC concentrated on five (5) primary
8 tasks:

9 ***Task 1: Review of existing Water Audits and Water Audit Relevant Data***

10 ***Task 2: Validation of Water Balance Data and Recommendation for***
11 ***Bottom-Up Data Validation and Tests***

12 ***Task 3: Preparation of AWWA³ Water Balance:***

Water Supplied	Authorized Consumption	Billed Authorized Consumption	Billed Metered Consumption	Revenue Water
			Billed Unmetered Consumption	
		Unbilled Authorized Consumption	Unbilled Metered Consumption	Non-Revenue Water
			Unbilled Unmetered Consumption	
	Water Losses	Apparent Losses	Unauthorized Consumption	
			Customer Meter Inaccuracies	
			Data Handling Errors	
Real Losses				

13
14

³ American Water Works Association.

1 **Task 4: Recommendations for Water Loss Control and Infrastructure**
2 **Investment Strategy & Technical Memo Development**

3 **Task 5: Field leak detection**

4

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

7 **A.** Yes.

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

9 **A.** Yes, it does. However, I reserve the right to update or amend this testimony
10 upon receipt of additional data or other information that may become
11 available.

1 Q Next questions, Mr. Mendenhall, did you cause
2 to be filed in this docket rebuttal testimony consisting
3 of 9 pages on November 20th?

4 A Yes.

5 Q If I were to -- do you have any changes or
6 corrections to make?

7 A No.

8 Q If I were to ask you those same questions
9 today, would your answers be the same?

10 A Yes.

11 MS. SANFORD: Then Commissioner Brown-Bland, I
12 will also request that the rebuttal testimony be copied
13 into the record as if -- be copied into the record.

14 COMMISSIONER BROWN-BLAND: All right. That
15 will be allowed. Mr. Mendenhall's -- Witness
16 Mendenhall's rebuttal testimony will be received into the
17 record and treated as if given orally from the witness
18 stand.

19 MS. SANFORD: Thank you.

20 (Whereupon, the prefiled rebuttal
21 testimony of J. Bryce Mendenhall was
22 copied into the record as if given orally
23 from the stand.)

24

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. W-354, SUB 364

In the Matter of)	
Application of Carolina Water Service, Inc.)	REBUTTAL TESTIMONY OF
of North Carolina for Authority to Adjust)	J. BRYCE MENDENHALL
and Increase Rates for Water and Sewer)	ON BEHALF OF CAROLINA
Utility Service in All of its Service Areas in)	WATER SERVICE, INC. OF
North Carolina.)	NORTH CAROLINA

OFFICIAL COPY

Dec 06 2019

Pre-Filed Rebuttal Testimony
of
J. Bryce Mendenhall

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

November 20, 2019

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 **A.** My name is J. Bryce Mendenhall, and my business address is
3 4494 Parkway Plaza Boulevard, Suite 375, Charlotte, North Carolina
4 28217.

5 **Q. WHERE ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 **A.** I am Vice President of Operations for Carolina Water Service, Inc. of North
7 Carolina ("CWSNC" or "Company"), Tennessee Water Service, Inc. in
8 Tennessee, and Blue Granite Water Company in South Carolina, all of
9 which are subsidiaries of Utilities, Inc. ("UI").

10 **Q. ARE YOU THE SAME J. BRYCE MENDENHALL WHO PREVIOUSLY**
11 **TESTIFIED IN THIS PROCEEDING?**

12 **A.** Yes.

13 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

14 **A.** The purpose of my testimony is to respond to the testimony of Lindsay
15 Darden, filed on behalf of the Public Staff. Specifically, I address witness
16 Darden's testimony as to CWSNC's purchased water expense, and in
17 particular the Public Staff's recommendation as to water loss adjustments.

18 **Q. WHAT IS THE PROCEDURAL HISTORY OF WATER LOSS**
19 **ADJUSTMENTS FOR PURCHASED WATER SYSTEMS IN CWSNC'S**
20 **RECENT RATE CASES?**

21 **A.** In its last two rate cases, Sub 356 and Sub 360, the Public Staff proposed
22 a 20% water loss threshold. Sub 356 culminated as a settled case, but

1 following the evidentiary hearing I submitted an Affidavit in Response to
2 Commission Questions. In this Affidavit I supported the rationale for the
3 negotiated agreement to a 20% water loss threshold. In Sub 360, the
4 Public Staff again recommended a 20% water loss threshold. While water
5 loss threshold was a contested item, there was no specific rebuttal
6 testimony addressing the topic, and the reasonableness of such an
7 adjustment does not appear to have been set forth in the Commission's
8 Order. Thus, the rationale for a water loss adjustment has not been
9 addressed by the Commission in CWSNC's two most recent rate cases
10 Orders.

11 **Q. CAN YOU SUMMARIZE WITNESS DARDEN'S TESTIMONY ON THE**
12 **ISSUE OF PURCHASED WATER EXPENSE?**

13 **A.** Yes. The Public Staff asserted that it calculated its purchased water
14 expense recommendation by using the total gallons purchased from
15 invoices provided by the Company and the most current rates to project
16 an annualized cost. The quantities purchased were compared to the
17 gallons sold by the Company for each applicable system. The Public Staff
18 then made a water loss adjustment to five purchase water systems:
19 reducing Zemosa Acres, Whispering Pines, Carolina Forest, and Woodrun
20 to a water loss rate of 15%, and reducing High Vista Estates' water loss
21 rate to 20%. The effect of utilizing these thresholds was to remove more
22 than 30 million gallons from the purchased water expense equation. The

1 result of removing these 30 million gallons is a water loss adjustment
2 reduction of approximately \$111,287.

3 **Q. HOW DID WITNESS DARDEN JUSTIFY THE WATER LOSS**
4 **ADJUSTMENT?**

5 **A.** On page 17, lines 8-10 of her testimony, witness Darden testified that
6 “[t]he Public Staff recommends an allowable water loss of 15% for most
7 purchase water systems and 20% for purchase water systems that are
8 located in the mountain regions of North Carolina.”

9 **Q. DID WITNESS DARDEN PROVIDE ANY OTHER EXPLANATION**
10 **OTHER THAN THIS STATEMENT?**

11 **A.** The only other justification is found in note 1 to Exhibit 4 to witness
12 Darden’s testimony, which exhibit reflects the Public Staff’s purchased
13 water adjustment calculations. Note 1, associated with the column labeled
14 “P.S. Allowable Loss (%)” states “The Public Staff determines an
15 appropriate amount of water loss based on system specific criteria, such
16 as geographic location, unusual circumstances, etc. For the systems
17 shown above, the standard allowable water loss is 20% for systems
18 located in the mountain region and 15% for systems not located in the
19 mountain region.”

20 **Q. DOES IT APPEAR TO YOU THAT PUBLIC STAFF TOOK INTO**
21 **ACCOUNT ANY “SYSTEM SPECIFIC CRITERIA” OTHER THAN**
22 **GEOGRAPHIC LOCATION?**

1 **A.** No. It appears the Public Staff merely allotted its so-called “standard
2 allowable water loss” percentage of 20% for the mountain system, and
3 15% to all the rest. There was no analysis of any other “system specific
4 criteria” such as unusual circumstances, or any other criteria represented
5 by the “etc.” contained in note 1 on Exhibit 4.

6 **Q. IN YOUR OPINION, ARE THERE ANY SYSTEM SPECIFIC CRITERIA**
7 **ON ANY OF THESE FIVE SYSTEMS THAT SHOULD RESULT IN A**
8 **DIFFERENT WATER LOSS PERCENTAGE?**

9 **A.** Yes. The Whispering Pines system in particular involves certain very
10 unique circumstances related to water loss. It should be first understood
11 that the Whispering Pines system is the dead-end of the distribution line
12 for the supplier, Town of Southern Pines. An important maintenance task
13 is to ensure water movement through the system. Dead-end mains,
14 typically in cul-de-sacs, at the end of rural streets, or via lengthy line
15 extensions from a remote provider, are known problem areas for water
16 stagnation, resulting in aesthetic complaints. Therefore, water quality is a
17 primary focus. Additionally, Whispering Pines was originally designed and
18 supplied by a system of production wells that, in order to increase water
19 quality, created small usage zones which lead to multiple ‘dead-end’ water
20 mains that are not connected. The Company performs an unusually high
21 level of operational maintenance with the Whispering Pines system,
22 including implementation of a water flushing regimen based on fluctuating

1 chlorine residual readings to maintain high-quality water through the
2 system. In fact, during the Test Year for Whispering Pines, the Company
3 utilized approximately 14.27 million gallons of water (of the 125.7 million
4 total gallons purchased) for the prudent step of flushing this system.
5 These operational needs related to the Whispering Pines system are
6 therefore a significant driver in what the Public Staff considers “water
7 loss”, but are necessary to maintain proper service to customers and are
8 outside the control of the Company. It is simply a system’s unique
9 circumstances that result in reasonable and prudent operational activities
10 that materially impact its water loss calculation. As such, a proper
11 analysis of the Whispering Pines system would result in the conclusion
12 that its true “water loss,” following the prudent water flushing regimen, is
13 within the 15% water loss threshold advanced by the Public Staff; thereby,
14 requiring no adjustment in this case.

15 **Q. DOES IT APPEAR THE PUBLIC STAFF TOOK ANY OF THESE**
16 **UNIQUE CIRCUMSTANCES INTO CONSIDERATION?**

17 **A.** No, not from witness Darden’s testimony. It appears the Public Staff
18 simply held Whispering Pines to the “standard allowable water loss” of
19 15% applied to other non-mountain region systems. This is despite the
20 Public Staff’s awareness of Whispering Pines’ unique circumstances that
21 result in water loss levels beyond the default level recommended by the
22 Public Staff.

1 **Q. WERE THERE UNIQUE CIRCUMSTANCES AT ANY OTHER SYSTEM**
2 **THAT WERE NOT TAKEN INTO ACCOUNT BY THE PUBLIC STAFF?**

3 **A.** Yes. The Company completed a main replacement project in High Vista
4 Estates in 2018. In addition, performance of the leak detection studies at
5 Carolina Forest, Woodrun, and Zemoso Acres, which I discuss further
6 below, entails the use of additional water.

7 It is widely accepted in the water industry that costs to address water loss
8 can exceed the benefits gained by doing so, especially in smaller systems
9 such as Woodrun, Carolina Forest, and Zemoso Acres, which combined
10 amount to 922 Equivalent Residential Connections ("ERCs"). The
11 Company therefore has implemented incremental steps to address water
12 loss in these smaller systems, and material improvements in water loss
13 may not occur immediately. However, these unique circumstances should
14 not be ignored in the water loss analysis.

15 **Q. IS THERE ANYTHING ELSE YOU WOULD LIKE TO MENTION WITH**
16 **REGARD TO THE WATER LOSS AND OTHER NON-REVENUE**
17 **WATER ISSUES?**

18 **A.** Yes. As I explained in my direct testimony, the Company has continued to
19 implement its utility-wide Non-Revenue Water ("NRW") Strategy in an
20 effort to reduce water loss. This strategy is consistent with the principles
21 of the American Water Works Association ("AWWA") M36 Manual ("Water
22 Audits and Loss Control Programs"). In short, the purpose of the NRW

1 strategy is to address NRW based upon the system-specific economic
2 level of intervention ("ELI"), otherwise referred to as the economic level of
3 leakage ("ELL"). The Company's strategy includes or anticipates (1) the
4 completion of a "top-down" water audit for each system on an annual
5 basis; (2) assessment of source meter accuracy; (3) customer billing and
6 data audits; (4) large meter replacements; (5) plans for system-specific
7 evaluations of the cause(s) of real losses; and (6) the development of
8 NRW-related key performance indicators. The Company reviews and, as
9 necessary, updates its strategy on a regular basis which has included
10 (1) vacancy report reviews; (2) zero consumption report reviews; and
11 (3) identification of the oldest meters per system coupled with usage
12 reviews.

13 **Q. HAVE THERE BEEN TANGIBLE RESULTS OF THESE EFFORTS?**

14 **A.** Yes, as noted in my Direct Testimony in this proceeding, the remaining
15 four systems beyond Whispering Pines which witness Darden adjusts for
16 water loss were addressed via leak detection studies in 2019 to identify
17 and address causes of water loss and non-revenue water. While the
18 Company anticipates improvements in water loss for these systems based
19 on its efforts, additional data will need to be gathered in the coming
20 months to determine the success of its efforts and the prudence of further
21 investments in this area.

1 **Q. WHAT IS YOUR RECOMMENDATION FOR THE COMMISSION AS TO**
2 **THE WATER LOSS ISSUE?**

3 **A.** I recommend the Commission not include any of the purchased water loss
4 adjustments advanced by Public Staff. The Public Staff indicated no issue
5 with the invoices demonstrating the amount of water purchased for these
6 systems, but merely applied “standard” water loss percentages across the
7 systems in question. Other than mountain versus non-mountain regions,
8 the Public Staff did not make any individualized assessment of the unique
9 characteristics of the various systems - either systemic or specific to the
10 Test Year period being analyzed - nor took into account the Company’s
11 targeted efforts to tackle water loss. For these reasons, the Public Staff’s
12 water loss adjustments should be rejected.

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

15 **A.** Yes.

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

17 **A.** Yes, it does.

1 Q Mr. Mendenhall, a couple of qualifying
2 questions as we approach this topic. You also
3 participated in the preparation of the -- I believe it
4 was four consumer responses to the Commission that
5 responded to consumer interests that were expressed at
6 the public hearings; is that correct?

7 A I did, yes.

8 Q They were done under your supervision and
9 you're familiar with them?

10 A Yes.

11 Q Okay. And with respect to your direct and
12 rebuttal testimony, the issues that were presented in
13 there have been the subject of agreement between the
14 Public Staff and the Company with respect to a
15 resolution; is that correct?

16 A That is my understanding, yes.

17 Q Reflected in the Joint Partial Settlement
18 that's been filed?

19 A Yes.

20 Q Okay.

21 MS. SANFORD: With that, he is available for
22 questions.

23 COMMISSIONER BROWN-BLAND: All right. Is there
24 any cross at this time?

1 (No response.)

2 COMMISSIONER BROWN-BLAND: Okay. Questions
3 from the Commission? Commissioner Clodfelter.

4 EXAMINATION BY COMMISSIONER CLODFELTER:

5 Q Good morning.

6 A Good morning, sir.

7 Q My questions are really not about the customer
8 issues, just some things that I'm curious about from your
9 testimony, prefiled testimony. In your direct testimony
10 you discuss the Company's efforts to address non-revenue
11 water and discuss in some detail the five systems, the
12 purchased water systems. And that prompted me to ask the
13 question, does the Company track non-revenue water on
14 non-purchased water systems -- on its non-purchased water
15 systems? Do you track non-revenue water?

16 A We do. We perform top down water audits.

17 Q You do?

18 A Yes, sir.

19 Q You collect that information. And is that
20 recorded on a regular basis and anywhere I can access
21 that?

22 A I'm assuming we could provide you as a late-
23 filed exhibit information on --

24 Q Well --

1 A -- our non-purchased --

2 Q -- I'm not sure I want to ask you for that
3 yet --

4 A Okay.

5 Q -- so I may wait till the end of the hearing.
6 I made decide whether I want to ask your counsel for that
7 or not.

8 A Okay.

9 Q I just want to know, first, whether you collect
10 the data.

11 A We do.

12 Q When you do collect the data, do you try to do
13 an analysis to segregate out how much of that non-revenue
14 water is due to flushing activities and how much of it is
15 due to water loss?

16 A Staff members are required to maintain --

17 Q You do.

18 A -- flushing waters, yes, sir.

19 Q So you are able to distinguish flushing from --

20 A Yes, sir.

21 Q Great. Okay. Let me -- that's fine for now,
22 and I'll decide if I want that data later. I just was
23 curious if you collected it.

24 A Okay.

1 Q But I'll ask you the same question, really,
2 about stormwater infiltration on the wastewater side. Do
3 you track that? Do you collect data on that?

4 A It's more challenging to track it on the
5 wastewater side.

6 Q It is? Okay.

7 A More so, you would have to look at -- if you
8 don't have in-line meters to manage the flow and --

9 Q Right.

10 A -- check the flow during rain events, you would
11 be looking more at run times on --

12 Q Right.

13 A -- pumps and motors.

14 Q Right.

15 A So it's quite a bit more challenging. And then
16 the flow is coming into the plant as well. We see those.

17 Q So you -- well, I guess -- I understand all of
18 that. Thank you. Do you actually try to make any
19 determinations or assessments of how much infiltration
20 you're experiencing?

21 A Not specifically.

22 Q Okay.

23 A Just known flows coming in --

24 Q Okay.

1 A -- and differences between and events.

2 Q Okay. Thank you.

3 A Yes, sir.

4 COMMISSIONER CLODFELTER: That's all I have.

5 COMMISSIONER BROWN-BLAND: All right.

6 EXAMINATION BY COMMISSIONER BROWN-BLAND:

7 Q Mr. Mendenhall --

8 A Yes, ma'am.

9 Q -- as sort of pre-advertised, let's get to a
10 customer question. At the Jacksonville public hearing
11 there was a witness, Mr. Irving Joffee of Fairfield
12 Harbour, who indicated his home was destroyed in
13 Hurricane Florence --

14 A Yes, ma'am.

15 Q -- and that he was having it rebuilt. There
16 came a stage of the rebuilding process where he needed
17 water, so he had his water reconnected, but he seemed to
18 realize that physically he was not reconnected to the
19 sewer.

20 A Yes, ma'am.

21 Q And he tried to determine -- he received a
22 sewer charge, nonetheless, and he was trying to determine
23 why and whether that was appropriate and that kind of
24 thing. Can you speak to that? Even though there was a

1 filing and response, we didn't see a response in the
2 Company's report about Mr. Joffee specifically.

3 A In Mr. Joffee's case, along with several homes
4 along the waterfront in Fairfield Harbour, they were
5 required to raise them as part of mitigating efforts.
6 Hopefully, they don't have to have that issue again. So
7 in the part of raising, he did become disconnected from
8 the sewer system. On November the 8th, after reviewing
9 the file, Mr. Joffee, I think, indicated in the public
10 hearing or the customer review that he had -- management
11 had been unresponsive to him or nonresponsive. Based on
12 the review, he spoke to, it appears, customer service
13 representatives and it never escalated up to a higher
14 fashion. But on November the 8th, I signed off on an
15 adjustment to his account, I think it was some \$335, and
16 it represented the months of April through October at the
17 time to waive the base sewer charge, so I guess a couple
18 of weeks, maybe 10 days or so after the hearing.

19 Q Okay. Can you explain -- well, I guess give us
20 the reason that you -- that it was adjusted. In other
21 words, is that part of a policy, a larger, broader policy
22 with regard to these catastrophic events or is it related
23 to the fact that he was disconnected? Can you explain
24 more?

1 A Well, twofold. I think part of -- one thing is
2 the devastation that was experienced in Fairfield
3 Harbour, certainly, but the other piece of it was
4 confirmation that he was, in fact, disconnected from the
5 wastewater. There is not a standing policy in that
6 situation where if you are utilizing water, but you're a
7 combined water and sewer customer, that we automatically
8 waive sewer if you're not using it at the time.

9 Q And so as a result of looking back or
10 otherwise, but I would say specifically as a result of
11 looking back at Mr. Joffee's case were there other
12 similarly-situated residents? Have you looked to see who
13 may have fallen into similar situa--- had a similar
14 issue?

15 A We have not been approached. I mean,
16 obviously, driving through Fairfield Harbour, there are
17 several homes that were raised. Now, the time and length
18 in which they may have been disconnected from the
19 wastewater we have no way to know because we're not
20 privy. As my previous background with a municipal, I'm
21 not privy to the construction permits or anything of that
22 nature, so it makes it challenging for us to know when
23 the disconnection took place and when a reconnection
24 carries on and they reissue the certificate of occupancy.

1 Q As I recall from Mr. Joffee, I believe at the
2 time that he was speaking to us, he was still not
3 connected to the sewer. So from that point of view, if
4 there are any other customers like that who are currently
5 not connected, are you able to tell? Can you do some --
6 perform some sort of study to see who may or may not need
7 adjustment?

8 A We may be able to petition the County
9 inspections office to see --

10 Q But otherwise, you can't -- otherwise, you have
11 no way of knowing?

12 A In essence, you'd have to go house by house to
13 see and then either -- unfortunately, you don't want to
14 do a flush to see where the water is going or where it's
15 not going, but to physically see that it's disconnected,
16 we'd have to go inspect each individual home.

17 Q All right. On another topic, in Witness --
18 Public Staff Witness Casselberry's direct testimony, I
19 believe her prefiled testimony, she discussed the issue
20 regarding elevated levels of uranium in Sapphire Valley,
21 one of the wells there, and indicated that testing had
22 increased from the six-year requirement to --

23 A Yes, ma'am.

24 Q -- the Company was now doing it quarterly. And

1 over time and -- and ultimately, she indicated that the
2 Company had decided to proceed with treatment of the
3 uranium. Could you speak to what that involves?

4 Describe the project, tell us what it entails, and
5 provide any estimate of the cost of that project that we
6 would expect.

7 A I do not have a cost estimate at this time
8 because we have plans that -- Staff has finalized our
9 internal review. And, actually, I anticipate -- the last
10 update I got on our project statement was that I would be
11 signing off and we would be filing for State approvals
12 for the treatment system on December 9, which I think is
13 this coming Monday. So everything has been in process.

14 The well, even though the levels themselves,
15 with a running annual average, have maintained below the
16 action level. We've seen an uptick in levels detected
17 and going to the more increased monitoring. These wells,
18 as in the mountains, we see tend to have a little bit of
19 a mind of their own. Every five to 10 years they seem to
20 want to flare and then come back down, but this one is
21 pushing the envelope close enough with our minimum
22 requirements that we went ahead with the design criteria.
23 So it has been designed, and as far as I know, it's
24 waiting on my signature to go to be submitted for State

1 approval. And I think we were anticipating by -- I want
2 to say by May 2020, Commissioner, that we would actually
3 have the unit installed.

4 Q Right. And that's consistent with the date in
5 Witness --

6 A Okay.

7 Q -- Casselberry's testimony. Any more light
8 that you can shed about uranium contamination or the
9 uranium issue in general? Is it -- does it have a
10 uniqueness on the -- the levels have a uniqueness to the
11 mountain area? Is this pretty common across your
12 territories?

13 A It's not common across the entire territory. A
14 lot of it comes from the rock formations that the wells
15 are in. We do see it more so -- I think in '17 or early
16 '18 we had to install a treatment facility at our Apple
17 Valley. So similar areas, but it seems to concentrate a
18 little bit more in our southern systems for some reason.
19 But like I said, we watch these wells on a rolling basis,
20 and to go from six-year samples to quarterly, it's been
21 watching that trend come up. To tell you what's driving
22 that trend, everybody's got a little bit of a synopsis of
23 what may do it, but to me there's no rhyme or reason at
24 this point.

1 Q And what is the treatment?

2 A So we have an ion exchange and then we have to
3 deal with the backwash that comes off of it, which makes
4 it a little bit more cumbersome. If we have a wastewater
5 plant close by, then we can handle it there. If not, we
6 have to do a pump and haul with the backwash runoff. And
7 if we can, we try and blend the waters. We're not
8 necessarily treating to 100 percent to reduce the size of
9 the treatment facility itself. We're trying to blend the
10 waters as best.

11 Q All right. Thank you for that. A couple more
12 questions. So based on the information in the record
13 that we have, we've done some calculations, and I can
14 tell you how we got there if you need me to, but we have
15 calculated that the cost of the new AMR meters that have
16 been installed on a per-person basis or per-meter basis,
17 they are \$405 for Fairfield Mountains, and it comes to
18 \$303 for Connetsee Falls. Does that reasonable? Have
19 you heard those numbers? We got it because we see the
20 number of meters installed, and we divided --

21 A I would respect those numbers, yes.

22 Q -- based on the total price. Is there a reason
23 -- do those numbers on a per-meter basis seem higher than
24 the regular meters or other meter installations that the

1 Company has experienced? Do you know?

2 A One of the things we ran into with both of
3 these mountain systems were Connestee and Sapphire both
4 were the previous installations, not only the meter boxes
5 themselves, but whether they were straight-piped, whether
6 they had a backflow preventer on them, and then general
7 location, and then the ability to dig and replace, and
8 that was part of the driver and the difference that you
9 see in the prices.

10 Q So I think that kind of anticipates where I was
11 going. I was trying to figure what was making the price
12 higher, if you agree with me that they were, in fact,
13 higher.

14 A Right.

15 Q And what you describe, is that a result of the
16 mountain area or just the way these happen to be
17 installed?

18 A Part of it is the original developer
19 installation, based on the age, which may not be typical
20 to what we would see today. If they did not have a yoke
21 put in -- a meter yoke, we would install a yoke in there
22 as well. So those are factors. As far as being in the
23 mountains, in some cases they were challenging
24 installations. They put them in the easiest place they

1 could, so if we tried to relocate meters to put them back
2 on right-of-ways or things of that nature, then that
3 actually would drive up the cost as well.

4 Q So going forward, to the extent that the
5 Company plans other installations of new meters, would
6 you expect the cost to be -- to rival this cost that we
7 see in these two systems or to be in this area, or would
8 they be lower?

9 A It'll vary. We did a site survey with the
10 installer for these two mountain systems, and I think
11 that the preparation kind of helps as we go into the
12 pricing of it. When we see these installations where we
13 have to do upfits, I think you will see these rival these
14 costs, yes, ma'am. I don't think there will be much
15 variation.

16 Q So this is about the level we can expect to see
17 going forward?

18 A I think so. Yes, ma'am.

19 Q So as you and I have been discussing, we
20 anticipate and the Company seems to anticipate you will
21 be moving forward with other installations. What other
22 geographical areas are you planning a mass replacement or
23 a technological upgrade of meters?

24 A One of the next systems we're looking at is --

1 I believe it's going to be Sugar Mountain. We're going
2 to continue -- try and continue in the mountain regions.
3 I think we've probably still got across multiple systems
4 maybe 4,500 more AMRs we'd like to install, and that
5 would pretty much complete our mountain sector before we
6 would look to go to a different geographic region.

7 Q Have you been able to project out those costs
8 yet or do I need to ask Witness DeStefano?

9 A You can -- I'll yield to -- because he'll yield
10 back to me at some point, I'm sure, but we've got it in
11 our capital projections.

12 Q All right. And do you know ballpark?

13 A I don't know off the top of my head. Yes,
14 ma'am.

15 Q Do you know the expected timing that you will
16 start those projects or conclude them?

17 A I want to think that Sugar is maybe in the 2020
18 -- 2020, early '21 time frame. I think that we'd be
19 looking further out, maybe '22, before we start on some
20 of the other mountain systems.

21 Q All right. And I know I could take this one to
22 Mr. DeStefano, but are you anticipating that the Company
23 would seek deferral accounting for those projects?

24 A I'm going to defer to Ms. DeStefano, but I'm

1 not going to take it off the table. No, ma'am.

2 Q All right. Finally, with regard to the
3 surcharge for what we call WSIC and SSIC -- do you know
4 what I'm referring to?

5 A Yes, ma'am. I do.

6 Q And is it -- in your opinion, has the Company
7 used that mechanism to the maximum extent possible for
8 capital improvements, and if not, why not?

9 A In the time that I've been here, I think we've
10 utilized it one round. We made an attempt. And with
11 some deliberations with the Public Staff, the approach
12 that we came forward with and we thought was acceptable,
13 they asked for some changes to that point. I think there
14 is some opportunities in WSIC/SSIC, the way it is
15 established, to broaden it to allow for more projects
16 that would qualify for it, but we have a better
17 understanding now, after the first filing and
18 interactions with Public Staff, of how we would proceed
19 forward. Yes, ma'am.

20 Q Does the Company have a concern or opinion that
21 the WSIC/SSIC is not well suited to its systems?

22 A I'm not going to say well suited, but I think
23 there is opportunity to expand the actual program itself.

24 Q So you're looking forward to using them --

1 A Yes, ma'am.

2 Q -- the mechanisms, in the future?

3 A Yes, ma'am.

4 Q Have you thought about in the context of using
5 it to help delay or reduce the need for frequent rate
6 cases?

7 A It has been discussed internally. Yes, ma'am.

8 Q Do you have an opinion about -- could it be
9 useful in that way to the Company?

10 A I would agree that it could be useful, and I
11 think it would be even more useful if we can come to a
12 consensus and work with Public Staff to expand it and
13 bring some new opportunities to it. Yes, ma'am.

14 Q All right. Thank you.

15 COMMISSIONER BROWN-BLAND: Any further
16 questions? Commissioner Clodfelter?

17 EXAMINATION BY COMMISSIONER CLODFELTER:

18 Q So more about that, Mr. Mendenhall. How could
19 it be expanded in the scope?

20 A There's a key term in WSIC/SSIC that refers to
21 in-kind or like-kind that I think it's -- it's narrow to
22 me, that I think that we could look at potentially
23 expanding that in the case of -- just like with AMR
24 meters. If we did -- meter replacements, I think, are

1 available under WSIC filing, but it's for in-kind
2 replacement, so you would have to go conventional for
3 conventional. To expand that to different technologies,
4 I think, opens up that opportunity. That's kind of the
5 road I'm going down.

6 Q Thank you. That's helpful. Could you have
7 used the SSIC option for any of the major projects you've
8 got here? The Connestee Falls plant or the Nags Head
9 plant, were they eligible?

10 A I'd have to go back and look at the filing. I
11 know that pipeline work is available, I think lift
12 station work is available as well, but I'd have to look
13 at the plant work, Commissioner.

14 Q Okay. That's fair. Thanks.

15 COMMISSIONER BROWN-BLAND: Commissioner Gray?

16 EXAMINATION BY COMMISSIONER GRAY:

17 Q Just a quick question. Are both Connestee and
18 Nags Head wastewater treatment plants in service?

19 A Yes.

20 Q The new ones --

21 A Yes, sir.

22 Q -- are up and running.

23 A Absolutely. Yes, sir.

24 Q Good.

1 A Yes, sir. Very proud of them.

2 COMMISSIONER BROWN-BLAND: Chair Mitchell?

3 EXAMINATION BY CHAIR MITCHELL:

4 Q Mr. Mendenhall, I'm going to follow up on the
5 WSIC/SSIC questions with just one. You indicated there's
6 an in-kind -- the in-kind, like-kind language in the
7 statute has been an obstacle for you -- for your Company.
8 In your opinion, is that an interpretation issue, an
9 interpretation of that term, or is it legislative
10 authority? I mean, where -- help me understand exactly
11 where the issue is.

12 A I think it takes parties, either the regulated
13 utilities sitting down with Public Staff and eventually
14 with the Commission to make sure that we all understand
15 what in-kind and like-kind completely is and if there's
16 any variation. I don't know that it's -- from a
17 legislative standpoint, I don't know that I want to go
18 that far, Commissioner Mitchell, but just to make sure
19 that all parties completely agree before -- we don't want
20 to come in with a suggestion for something that Staff
21 would not consider to be in-kind or like-kind.

22 Q Okay. Understood. And are there any other
23 provisions in the statute, other than the in-kind/like-
24 kind provision, that sort of fall into this same bucket

1 of differences of opinion or interpretation at this point
2 in time?

3 A I would ask for the opportunity to go back and
4 review the statute and then maybe report to you. Nothing
5 is coming to me right now, but I've not looked at the
6 statute in quite some time.

7 Q Okay. So when you say there are opportunities
8 to broaden the Company's use of the mechanism, you mean
9 attempting to reach consensus on the existing
10 legislative --

11 A Yes, ma'am.

12 Q -- authority?

13 A I would agree with that. Yes, ma'am.

14 Q Okay.

15 COMMISSIONER BROWN-BLAND: Commissioner Hughes?

16 EXAMINATION BY COMMISSIONER HUGHES:

17 Q Yeah. Shift gears just a little bit. As part
18 of this settlement you've -- we've agreed -- you've
19 agreed, excuse me, to increase the Company's reconnect
20 fee from \$27 to \$42. I understand that some of those
21 reconnects are voluntary with people asking to
22 disconnect, and some of them are because of nonpayment.
23 Could you talk a little bit about your current shutoff
24 and reconnection policy for nonpayment?

1 A It's not unlike a municipal. I think we're a
2 little bit more lenient than municipals that I've been
3 in, Commissioner Hughes. I think we're on a two-month
4 cycle, as far as the -- as far as on a severance or a
5 disconnect. A fee is applied at that point. Other
6 places I've been municipal wise you had pay to zero
7 balance plus the reconnect fee. To my knowledge, we
8 don't -- you pay just your current past due, not the
9 entire balance to zero balance plus the reconnect.

10 Q Do you have any circumstances where you'll work
11 with low-income customers or waive the reconnect fee or
12 some other policy for -- if they come in and they say it
13 was a bad month?

14 A Generally, the supervisors will reach out to --
15 the customer service supervisors, let me state that, if
16 there is an inconvenience, they have some leniency
17 themselves as the customer service supervisor. If it is
18 a large balance they will reach out to, generally, the
19 regional managers and then it may escalate up to my desk
20 as well. So we do take into consideration someone who
21 has had a fire, someone who's had a catastrophic event.
22 We did it both in -- it's not in this state, but in
23 Gatlinburg when the wildfires came through and destroyed
24 one of our systems, we did the same thing, and at the

1 coast when Florence came through and different times. So
2 I'm not going to tell you there's a set policy that
3 you're going to see on my desk, but we do take into
4 consideration special circumstances, yes.

5 Q Could you tell me approximately how many
6 reconnects in a year you have?

7 A Not off the top of my head. Substantial
8 amount, but I can't tell you off the top of my head.

9 Q Do you expect that number to go down with the
10 increased fee? Do you think that will be a deterrent?

11 A Going back to municipal government, no, I did
12 not see that to be a trend, as a general rule.

13 COMMISSIONER BROWN-BLAND: All right. Well,
14 following up on the -- on the number of -- was it
15 disconnects? Is that something that the Company could
16 obtain and provide for us or is another witness able to
17 testify to that, if counsel knows?

18 THE WITNESS: It would be information we'd have
19 to go back to our billing department and pull.

20 COMMISSIONER BROWN-BLAND: All right. We would
21 ask that you'd provide that to us as a late-filed
22 exhibit.

23 MS. SANFORD: Certainly.

24 THE WITNESS: Define the time frame,

1 Commissioner Hughes --

2 COMMISSIONER BROWN-BLAND: I would say --

3 THE WITNESS: -- or --

4 COMMISSIONER BROWN-BLAND: -- the 12-month
5 period -- well, from the 12-month period that applies to
6 the rate case --

7 THE WITNESS: Okay.

8 COMMISSIONER BROWN-BLAND: -- coming forward.
9 Is that good with you?

10 THE WITNESS: Okay. Thank you.

11 COMMISSIONER HUGHES: That's fine. And if you
12 have information on the difference between a so-called
13 voluntary reconnect versus a nonpayment --

14 THE WITNESS: Okay.

15 COMMISSIONER HUGHES: -- that would be useful
16 as well.

17 THE WITNESS: Thank you.

18 COMMISSIONER BROWN-BLAND: All right.

19 Questions on the Commission's questions?

20 MS. HOLT: No.

21 COMMISSIONER BROWN-BLAND: Ms. Sanford?

22 MS. SANFORD: I have a few. Thank you.

23 EXAMINATION BY MS. SANFORD:

24 Q Mr. Mendenhall, we're talking about Mr. Joffee

1 now and -- from the Jacksonville hearing, and talking a
2 little generically about the circumstance of charging for
3 water and sewer during the pendency of an account for
4 what you call a combined customer, one who has water and
5 sewer as a combined service.

6 A Yes.

7 Q I think you said that a lot of factors
8 influence your decisions about whether to make exceptions
9 to the normal course of business which has that customer
10 paying water and sewer without regard to their use.

11 A Uh-huh.

12 Q And do those circumstances, the varying
13 circumstances, do they occur, for example, during periods
14 of construction?

15 A They can. Obviously, basically the way the
16 process starts is that a tap is requested and paid for.

17 Q Right.

18 A And at the point that a meter is requested to
19 be set is when billing begins. So in several cases, if
20 it's a combined, the meter being set is the trigger point
21 for billing.

22 Q For charges.

23 A And at that point you could potentially have
24 just a roughed-in home that is not utilizing water and

1 wastewater.

2 Q Right.

3 A Conversely, you know, what makes it a little
4 challenging as well is that we have several second and
5 third homes in our systems, and a lot of these homes do
6 not request to have their service, you know, disconnected
7 while they're out of town, so they continue to pay base
8 rates for use of not only water, but wastewater as well,
9 so it makes it challenging, so we look at these
10 individual events.

11 Q And so an established customer, for example,
12 who is doing the big remodeling job could continue to use
13 water, but not use sewer during --

14 A Potentially.

15 Q -- the period?

16 A Potentially, yes.

17 Q Yeah. And so for the Company to make any kind
18 of specific adjustment, it has to be something that's
19 called to your attention and is a hardship or whatever
20 criteria you use for determining if an adjustment is in
21 order?

22 A Correct.

23 Q And you have an obligation, do you not, to
24 collect the tariffed fees from a customer during the

1 period of their account with you?

2 A Yes, ma'am.

3 Q Unless you were alerted to and can make a
4 specific exception?

5 A Yes, ma'am.

6 Q Do you have many requests for exceptions?

7 A No. Actually, we do not. This was -- other
8 than areas affected like Fairfield Harbour, and this was
9 an isolated event with Mr. Joffee, they are rare.

10 Q Okay. Thank you. Moving to the conversation
11 that you had with various Commissioners about the WSIC
12 and SSIC program, the system improvement charge, you are
13 aware, are you not, that there are conversations going on
14 in other parts of your company with respect to the
15 adequacy of the WSIC and SSIC as they are currently
16 configured?

17 A Yes, ma'am.

18 Q And there are conversations, I think fairly
19 publicly held, about whether either -- whether the
20 statute should be amended to be of more assistance with
21 respect to cost recovery for water and wastewater
22 companies, are you not?

23 A Yes, ma'am.

24 Q And with respect to the WSIC as it currently

1 exists do you know whether it would allow recovery of
2 water and wastewater plant? And if you don't know,
3 that's fine.

4 A I don't know right off the top of my head.

5 Q Okay.

6 A I'd have to see the statute.

7 Q All right. You have been involved in
8 conversations about the in-kind, like-kind limitation
9 with respect to meters --

10 A Yes, ma'am.

11 Q -- isn't that right? And is it correct to say
12 that, again, if you know, that Carolina Water has tried
13 to make a larger use of the WSIC in an earlier filing,
14 but was unable to reconcile your request with what was
15 deemed in the regulatory community or conversations to be
16 an appropriate use of the WSIC?

17 A Yes. Correct.

18 Q Okay. Give me one second. And you are also
19 available on a panel with Mr. DeStefano this morning, as
20 you -- as the discussion focuses on deferred accounting;
21 is that correct?

22 A Correct.

23 Q In case there is some engineering backup needed
24 in that conversation?

1 A Yes, ma'am.

2 Q Okay. Thank you.

3 MS. SANFORD: I have no further questions.

4 COMMISSIONER BROWN-BLAND: All right. Thank
5 you, Mr. Mendenhall.

6 THE WITNESS: Thank you, Commissioners.

7 COMMISSIONER BROWN-BLAND: I won't excuse you.
8 It sounds like you're coming back.

9 MR. GRANTMYRE: Commissioner Brown-Bland, the
10 Public Staff would ask that the Commission take Judicial
11 Notice of the Commission's Orders for Carolina Water on
12 the WSIC/SSIC applications they have made so the
13 Commission will be aware of the applications and what has
14 been approved and not approved, as it's come up a number
15 of times, and also Judicial Notice of Aqua North
16 Carolina's WSIC/SSIC Orders, and the Public Staff will
17 provide to the Commission the dates of those Orders and
18 the docket numbers since the inception of the WSIC.

19 COMMISSIONER BROWN-BLAND: On the condition
20 that you provide that information, that will be allowed.
21 All right. I believe there's an agreement that we will
22 hear from Witness Casselberry next.

23 MS. HOLT: Yes. The Public Staff calls Gina
24 Casselberry.

1 GINA CASSELBERRY; Having first been duly sworn,
2 Testified as follows:

3 DIRECT EXAMINATION BY MS. HOLT:

4 Q Could you please state your name, business
5 address, and position for the record.

6 A My name is Gina Casselberry. I'm a Utilities
7 Engineer with the Public Staff - Water Division, Sewer
8 and Telecommunications Division. My address is 430 North
9 Salisbury Street, Raleigh, North Carolina.

10 Q Ms. Casselberry, on November 4, 2019, did you
11 prefile in this docket testimony in question and answer
12 form consisting of 20 pages?

13 A Yes.

14 Q And twenty---

15 COMMISSIONER BROWN-BLAND: Ms. Holt, be sure
16 you're in your mic, please.

17 MS. HOLT: Hello?

18 THE WITNESS: Yes. I guess I had to bring it
19 up closer. There we go.

20 COMMISSIONER GRAY: Thank you.

21 Q And did you also file 28 exhibits?

22 A Yes.

23 Q And on November 15th did you also file
24 supplemental testimony consisting of 17 pages?

1 A Yes.

2 Q Do you have any additions or changes to make to
3 your original testimony --

4 A No.

5 Q -- or your supplemental? If you were asked
6 those same questions today, would your answers be the
7 same?

8 A Yes.

9 MS. HOLT: At this time I request that Ms.
10 Casselberry's testimony be copied into the record as if
11 given orally from the stand and that her exhibits be
12 identified as premarked, and that her supplemental
13 testimony filed on November 15th also be copied into the
14 record as if given orally from the stand.

15 COMMISSIONER BROWN-BLAND: All right. That
16 motion will be allowed, and Ms. Casselberry's direct and
17 supplemental testimonies will be received into the
18 record, treated as if given orally from the witness
19 stand, and her exhibits filed with the direct testimony
20 will be identified as they were when prefiled.

21 MS. HOLT: Thank you.

22

23

24

1 (Whereupon, the prefiled direct and
2 supplemental testimony of Gina Y.
3 Casselberry was copied into the record
4 as if given orally from the stand.)
5 (Whereupon, Casselberry Exhibit Numbers
6 1 through 28 were identified as
7 premarked.)
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OFFICIAL COPY

Dec 06 2019

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. W-354, SUB 364

In the Matter of
 Application of Carolina Water Service,)
 Inc., of North Carolina, Post Office Box)
 240908, Charlotte, North Carolina)
 28244 for Authority to Adjust and)
 Increase Rates for Water and Sewer)
 Utility Service in All Service Areas in)
 North Carolina)

TESTIMONY OF
 GINA Y. CASSELBERRY
 PUBLIC STAFF – NORTH
 CAROLINA UTILITIES
 COMMISSION

STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH

CAROLINA WATER SERVICE, INC. OF NORTH CAROLINA

DOCKET NO. W-354, SUB 364

TESTIMONY OF GINA Y. CASSELBERRY
ON BEHALF OF THE PUBLIC STAFF

NOVEMBER 4, 2019

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

3 A. My name is Gina Y. Casselberry. My business address is 430 North
4 Salisbury Street, Dobbs Building, Raleigh, North Carolina. I am an
5 Advanced Utilities Engineer with the Public Staff's Water, Sewer, and
6 Telephone Division.

7 Q. BRIEFLY STATE YOUR QUALIFICATIONS AND EXPERIENCE
8 RELATING TO YOUR PRESENT POSITION WITH THE PUBLIC
9 STAFF.

10 A. I graduated from Michigan Technology University, receiving a Bachelor
11 of Science Degree in Civil Engineering. I have been with the Public
12 Staff's Water Division since February 1992. I have presented
13 recommendations in rate increase proceedings, new franchise and
14 transfer proceedings, and other matters before the Commission for the

1 past twenty-seven years, including Carolina Water Service, Inc. of
2 North Carolina's last six general rate cases.

3 **Q. WHAT ARE YOUR DUTIES IN YOUR PRESENT POSITION?**

4 A. My duties with the Public Staff are to monitor the operations of
5 regulated water and sewer utilities with regard to service and rates.
6 Included in these duties are field investigations to review, evaluate, and
7 recommend changes, when needed, in the design, construction, and
8 operations of regulated water and sewer utilities; presentation of expert
9 testimony in formal hearings; and presentation of information, data,
10 and recommendations to the Commission.

11 **Q. PLEASE DESCRIBE THE SCOPE OF YOUR INVESTIGATION IN
12 THIS CASE.**

13 A. On June 28, 2019, Carolina Water Service, Inc. of North Carolina
14 (CWSNC or Company) filed an application with the Commission to
15 increase its rates for providing water and sewer utility service in all of
16 its service areas in North Carolina, including the service areas of
17 Riverbend Estates and Silverton Subdivision, which were recently
18 transferred to CWSNC pursuant to the Commission's Orders issued
19 on May 16, 2019 in Docket No. W-354, Sub 358, and on July 29, 2019,
20 in Docket No. W-354, Sub 361, respectively. My investigation included
21 a review of customer complaints, contact with the Department of
22 Environmental Quality, review of company records, and analysis of

1 revenues at existing and proposed rates. I have also assisted Public
2 Staff Accountant Lynn Feasel in reviewing plant in service.

3 **Q. BRIEFLY DESCRIBE THE COMPANY'S APPLICATION IN THIS**
4 **CASE.**

5 A. CWSNC is proposing to increase water and sewer rates for its four
6 rate divisions: CWSNC Uniform Water, CWSNC Uniform Sewer,
7 Treasure Cove/Bradfield Farms/Fairfield Harbour (TC/BF/FH) Water,
8 and Bradfield Farms/Fairfield Harbour (BF/FH) Sewer. CWSNC is
9 proposing uniform sewer rates for the Corolla Light/Monteray Shores
10 (CLMS) service area. CWSNC is also proposing to pass on the
11 increased cost of purchased water and sewer treatment to
12 purchased water and sewer customers. The test year for this rate
13 case is the 12-month period ending March 31, 2019.

14 **Q. PLEASE DESCRIBE CWSNC'S SERVICE AREAS.**

15 A. CWSNC provides water to 96 service areas and sewer to 37 service
16 areas, some of which have multiple subdivisions. The service areas
17 are spread throughout North Carolina. CWSNC serves primarily
18 residential customers, but it also serves a limited number of retail and
19 commercial customers. Casselberry Exhibit Nos. 1 and 2 lists
20 CWSNC's service areas. As of the twelve-month period ending
21 March 31, 2019, CWSNC served 30,724 water customers and
22 20,105 wastewater customers, including CLMS. There are also

1 3,532 water availability customers in the Carolina Forest, Woodrun,
 2 Linville Ridge, Sapphire Valley, Connestee Falls, and Fairfield
 3 Harbour service areas, and 1,274 sewer availability customers in
 4 Sapphire Valley, Connestee Falls, and Fairfield Harbour service
 5 areas.

6 **Q. WHAT ARE CWSNC’S PRESENT AND PROPOSED RATES?**

7 A. CWSNC’s present and proposed rates for water and sewer utility
 8 services are shown in Casselberry Exhibit No. 3.

9 **Q. WHAT EFFECTS WOULD THE PROPOSED RATES HAVE ON**
 10 **RESIDENTIAL CUSTOMERS?**

11 A. If the rates requested by CWSNC are approved, the average
 12 residential bill (< 1” inch meter) will increase, based on the average
 13 monthly usage in gallons shown, as follows:

WATER OPERATIONS				
	Average			
<u>Service Area</u>	<u>Usage</u>	<u>Existing</u>	<u>Proposed</u>	<u>Percentage</u>
Uniform Flat Rate		\$53.58	\$61.96	15.64%
Uniform Metered Rate	3,630	\$53.23	\$61.83	16.16%
Carolina Trace	3,630	\$35.55	\$37.83	6.41%
Carolina Forest	3,630	\$39.11	\$41.39	5.83%
High Vista Estates	3,630	\$39.33	\$42.26	7.45%
Riverbend Estates	3,630	\$53.67	\$55.95	4.25%
Riverpointe	3,630	\$50.40	\$53.33	5.81%
Whispering Pines	3,630	\$35.62	\$37.90	6.40%
White Oak/Lee Forest	3,630	\$36.24	\$39.43	8.80%
Winston Plantation	3,630	\$36.24	\$39.43	8.80%
Winston Pointe	3,630	\$36.24	\$39.43	8.80%
Woodrun	3,630	\$39.11	\$31.39	5.83%
Yorktown	3,630	\$45.72	\$48.65	6.41%
Zemosa Acres	3,630	\$46.66	\$48.94	4.89%
Fairfield Harbour				
Treasure Cove				
Bradfield Farms	4,129	\$32.22	\$37.04	14.96%

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Under CWSNC's Proposed Pilot Program

Service Area	Average		
	Usage	Existing	Proposed Percentage
Uniform Metered Rate	3,207	\$ 50.23	\$ 58.09 15.65%
The Point Service Area	10,577	\$102.41	\$120.66 17.82%

SEWER OPERATIONS

Service Area	Average		
	Usage	Existing	Proposed Percentage
Uniform Flat Rate		\$ 57.82	\$ 79.46 37.43%
Uniform Metered Sewer	3,095	\$ 57.51	\$ 77.62 34.97%
White Oak Plantation/Lee			
Forest/Winston Point	3,095	\$ 47.29	\$ 58.02 22.69%
Kings Grant	3,095	\$ 43.39	\$ 53.10 22.38%
College Park	3,095	\$ 49.27	\$ 58.42 18.57%
Mt. Carmel	3,095	\$ 56.60	\$ 66.96 18.30%
Fairfield Mountain	3,095	\$101.13	\$110.28 9.05%
The Ridges	3,095	\$ 50.05	\$ 59.21 18.30%
CLMS	5,450	\$ 88.14	\$ 91.28 3.56%
Fairfield Harbour/ Bradfield Farms		\$50.46	\$ 55.66 10.31%
Bulk Sewer		\$50.46	\$ 55.66 10.31%
Hawthorne at the Green		\$50.46	\$ 55.66 10.31%
Silverton		\$50.46	\$ 55.66 10.31%

- 26 **Q. HAVE YOU REVIEWED THE OPERATIONAL STATUS OF THE**
 27 **WATER AND SEWER SYSTEMS WITH THE NORTH CAROLINA,**
 28 **DEPARTMENT OF ENVIRONMENTAL QUALITY (DEQ), DIVISION**
 29 **OF WATER RESOURCES (DWR) AND PUBLIC WATER SUPPLY**
 30 **SECTION (PWSS)?**
- 31 A. Yes. I contacted the seven regional offices in North Carolina. The
 32 PWSS identified four water systems which required action by
 33 CWSNC and DWR identified three wastewater treatment plants as
 34 discussed below:

1 but acquired an additional easement to drill a replacement well on
2 the same well site. However, the new well will require treatment for
3 manganese. Treatment options are now being reviewed, and once
4 the best solution is determined, CWSNC will take the necessary
5 steps to acquire approval from DEQ.

6 Wood Trace:

7 PWSS reported that the system had had issues with iron and
8 manganese. New filters have been installed, but there is no means
9 to dispose of the backwash water. CWSNC has confirmed that it has
10 commissioned an engineering firm to design a site plan to obtain a
11 permit to pump and haul filter backwash to CWSNC's Ashley Hill's
12 WWTP. Once approval has been obtained from DEQ, the filters can
13 be activated.

14 Sapphire Valley:

15 Sapphire Valley has 10 wells. In July 2018, elevated levels of
16 uranium were detected at Well No. 8. As a result, the frequency for
17 testing uranium at Well No. 8 has been changed from once every six
18 years to quarterly testing. Subsequent testing results indicate
19 fluctuating levels of uranium, which have been close or just above
20 the maximum contaminant level (MCL) of 20.1 picocuries per liter
21 (pCi/L). However, compliance is based on a running annual average,

1 which is currently below the MCL at 19.90 pCi/L. CWSNC has
2 decided to proceed with treatment and estimates that the project
3 should be completed by May 2020.

4 Sewer Systems

5 CLMS:

6 DWR reported that the wastewater treatment plant for Corolla Light
7 is in poor condition. The steel plant is structurally deteriorating and
8 needs significant upgrades, or the plant will need to be taken offline.
9 In addition, there are also groundwater-related issues that need to
10 be addressed. CWSNC has informed the Public Staff that it is their
11 intent to upgrade the plant at Monteray Shores to receive the flow
12 from Corolla Light. The plans for upgrading Monteray Shores's plant
13 should be submitted to DEQ for review by the end of 2019, and the
14 Corolla Light plant is slated for demolition potentially within the next
15 12-18 months once the flow is diverted.

16 Carolina Trace:

17 DWR reported that this system has chronic compliance issues
18 related to operations and maintenance of the wastewater treatment
19 plant (WWTP). I have reviewed the summary sheet provided by
20 DWR. The majority of the violations were for exceeding daily flows,
21 fecal coliform, and failing to restrict access to the facility, which took

1 place in late 2018 and 2019. CWSNC responded by stating that the
2 violations in 2018 and 2019 were a result of flooding and damage to
3 the WWTP caused by Hurricane Florence. One of the two treatment
4 units experienced major structural damage. The ultraviolet (UV)
5 disinfection system and the perimeter fencing were damaged. In
6 response to Hurricane Florence, CWSNC took the following steps:

7 1) Continued to disinfect the effluent flow with chlorine tablets
8 while the UV system was being evaluated. However, using the
9 tablets were less reliable due to the erratic flow to the facility. The UV
10 system has been repaired and is fully operational.

11 2) The security fence damaged due to floating debris during
12 the flood has been repaired.

13 3) The engineering firm commissioned by CWSNC has
14 completed a preliminary report to evaluate the damage and
15 determine the best course of replacement as well as mitigation to
16 avoid future occurrences. CWSNC anticipates that design and
17 permitting will begin in early 2020.

18 Ashley Hills:

19 DWR reported that this system has chronic compliance issues
20 related to operations and maintenance of the wastewater treatment
21 facility (WWTF). The majority of violations were for exceeding

1 biochemical oxygen demand (BOD) and Fecal Coliform (FC).
2 CWSNC reported that the issues relate back to two operational
3 deficiencies:

4 1) A worn air header prevented the uniform distribution of the
5 dissolved oxygen to the facility hampering the ability to remove BOD.

6 2) A failing UV disinfection system that was unreliable and
7 difficult to repair.

8 Both renovation projects were completed in early 2019.

9 It is the Public Staff's opinion that CWSNC has taken the necessary
10 actions and is satisfied that the concerns reported by DWR and
11 PWSS have been addressed or are in the process of being resolved.

12 **Q. HAS THE PUBLIC STAFF RECEIVED ANY CUSTOMER**
13 **COMPLAINTS AS A RESULT OF THE CUSTOMER NOTICES IN**
14 **THIS PROCEEDING?**

15 A. Yes. Customer hearings and complaints will be addressed in
16 Casselberry supplemental testimony.

17 **Q. BRIEFLY EXPLAIN YOUR BILLING ANALYSIS.**

18 A. I determined the end-of-period (EOP) customers for each service
19 area, for each meter type, for the twelve months ending March 31,
20 2019, based on the billing data provided in Item-26 filed with the

1 Company's application. I determined the annual consumption in the
 2 same manner. The results of my billing analysis are shown in
 3 Casselberry Exhibit Nos. 4, 5, 6, and 7.

4 **Q. WHAT ARE THE PUBLIC STAFF'S ANNUAL SERVICE**
 5 **REVENUES UNDER PRESENT AND PROPOSED RATES?**

6 A. CWSNC's uniform water and sewer, TC/BF/FH's water, and BF/FH's
 7 sewer present and proposed service revenues for the twelve months
 8 ending March 31, 2019, are shown below:

9 Public Staff's Service Revenues

10 Water Utility Service:

	<u>Present</u>	<u>Proposed</u>
11 CWSNC Uniform	\$17,485,912	\$20,186,663
12 TC/BF/FH	\$ 1,304,521	\$ 1,493,692

14 Sewer Utility Service:

	<u>Present</u>	<u>Proposed</u>
15 CWSNC Uniform	\$12,961,929	\$16,944,901
16 BF/FH	\$ 2,099,870	\$ 2,313,318

18 For the calculations, see Casselberry Exhibit Nos. 8, 9, 10, 11, 12,
 19 13, 14, and 15.

1 Q. PLEASE EXPLAIN WHY THE PUBLIC STAFF'S REVENUES AT
2 PRESENT RATES FOR UNIFORM WATER AND SEWER ARE
3 SIGNIFICANTLY HIGHER THAN THE COMPANY'S REVENUES
4 IN THEIR APPLICATION FILING?

5 A. In my billing analysis, I removed customers who were billed twice in
6 March or added customers, based on previous months, who were
7 not billed in March. As a result, the total EOP customers I determined
8 are slightly different than the Company. I also corrected other errors
9 the Company made in compiling EOP customers for all its service
10 areas.

11 Uniform Water: The Company omitted 351 residential
12 customers in Linville Ridge. In addition, Linville Ridge and The
13 Ridges are now fully metered. I reclassified both of them as new
14 metered residential customers and estimated the usage based on an
15 average usage of 1,920 per customer, which was agreed to in the
16 last general rate case, Docket No. W-354, Sub 360.

17 Uniform Sewer: The Company omitted 338 flat-rate customers
18 in Carolina Pines and 62 multi-unit flat-rate customers in various
19 service areas. It has been established that homeowner associations
20 (HOA) and condominium associations (CA) who receive a bill from
21 CWSNC and then bill their members are classified as commercial
22 customers. Therefore, I reclassified 49 multi-residential customers to

1 1.5-inch commercial customers and 4 multi-residential customers to
2 5/8 inch commercial customers, which reflects the actual bill sent to
3 the HOA or CA. The revenue was understated because residential
4 customers pay the same base charge regardless of the size of the
5 meter. I corrected the availability revenue for Sapphire Valley and
6 Connestee Falls. Sapphire Valley has a monthly rate, billed
7 semiannually, and Connestee Falls has a monthly rate, billed
8 quarterly. I also corrected the rate for The Ridges.

9 The Company agreed with the Public Staff's corrections and revenue
10 at present rates, as indicated in the Company's rate case updates,
11 filed on October 4, 2019.

12 **Q. DO YOU HAVE ANY CONCERNS IN REGARD TO CWSNC'S**
13 **BILLING DATA?**

14 A. Yes. The Company is still unable to provide the Public Staff with an
15 accurate count of active customers for the test period. As I testified
16 above, the Company's total EOP customers are missing entire
17 service areas, included customers billed twice in March or not at all,
18 and did not account for multi-unit customers but counted them as one
19 customer. In Docket No, W-354, Sub 336, Ordering Paragraph 8, the
20 Commission Ordered:

1 “That CWSNC shall modify its billing system such that
2 CWSNC has the capability to generate reports that reflect the
3 actual number of customers each month (not the number of
4 bills produced each month) or shall change its policy
5 concerning billing cycles such that customers shall be billed
6 only once per month.”

7 In addition, in Ordering Paragraph 9, the Commission further
8 ordered:

9 “That, CWSNC shall include the following in its NCUC Form
10 W-1 filing in its next general rate case proceeding: (a) an
11 individual spreadsheet for each service area, which shows the
12 number of actual customers served for each meter type, and
13 the actual usage for each meter type for each month for the
14 12-month test period specified in its application and (b) a
15 spreadsheet summarizing the total number of active
16 customers and total usage for each billing type for each month
17 for the 12-month test period specified in the application.”

18 For example, I selected six service areas from the Company’s Item-
19 26 filing in the application: Belvedere Plantation, Brandywine Bay,
20 Grandview at T-Square, Misty Mountain, Ski Mountain, and Nags
21 Head. The active customers (5/8 inch residential) for Belvedere
22 Plantation for July through December are 1215, 1231, 1220, 1242,
23 1235, and 1212, respectively. An increase in growth or a reduction
24 in growth would be represented as a linear progression, such as
25 1215, 1217, 1217 1219, 1219, and 1224, or the opposite 1215, 1213,
26 1213, 1210, not erratic like the numbers are shown above. The same
27 is true for Grand-T: 75, 70, 72, 82, 77 August through December and
28 Misty Mountain: 141, 136, 148, and 140 August through November.
29 Brandywine Bay was billed twice for the end month of the test year
30 period, 855, 9, and 1684, January, February, and March, as well as

1 Ski Mountain and Nags Head. Should the Commission approve the
2 consumption adjustment mechanism (CAM), it is critical that the
3 number of active EOP customers and consumption provided by the
4 Company is reliable and accurate and that the Public Staff can
5 complete its billing analysis in a timely manner. The Public Staff
6 recommends that in the next general rate case, W-1, Item 26 be
7 reconciled with CWSNC's bill date to ensure that the filing does not
8 include double bills, that the Company accounts for multi-unit
9 customers; and that other bills produced, such as final bills, late
10 notices, rebills or other miscellaneous bills, are not included in the
11 W-1, Item 26 filing.

12 **Q. HAVE YOU INVESTIGATED AVERAGE CONSUMPTION?**

13 A. Yes. I calculated the average consumption for 2016, 2017, and 2018,
14 as shown in Casselberry Exhibit No. 16, which reflects total bills
15 produced and corresponding consumption. The EOP customers and
16 consumption for 2016 and 2017 are based on Casselberry Exhibits
17 Nos 4 and 8, in Docket W-354, Sub 356, and Casselberry Exhibits
18 Nos 4 and 6 in Docket No. W-354, Sub 360, respectively. The EOP
19 customers and consumption for 2018 was provided by the Company
20 in this proceeding. The average consumption for uniform residential
21 water customers, not including purchased water customers, in 2016
22 was 3,961 gallons. The 2016 average consumption is the annual
23 consumption prior to consolidating Utilities Inc. subsidiary

1 companies; Bradfield Farms Water Company, Carolina Trace
2 Utilities, Inc., CWS Systems, Inc., Elk River, and Transylvania
3 Utilities, Inc. into CWSNC's two water rate divisions, uniform water,
4 and TC/BF/HF water. The first year after consolidation, the average
5 consumption for uniform customers dropped from to 3,961 gallons to
6 3,620 gallons. It is my opinion that the drop in consumption is due to
7 the following: 1) the magnitude of the rate increase in Sub 356, 2)
8 the number of seasonal water customers which were added to
9 uniform water, such as Sapphire Valley, Fairfield Mountain, Elk
10 River, and Connestee Falls, 3) the different rates between customers
11 with system-specific rates versus uniform rates and 4) "rate shock"
12 for some customers after receiving their first water bill under the new
13 consolidated rates. However, the second year after consolidation,
14 the average consumption increased slightly from 3,620 gallons to
15 3,673 gallons. There was a very small increase in the water rate in
16 Sub 360. In my opinion, at least one more year of data is necessary
17 to determine if consumption has stabilized or will consumption
18 continues to decline.

19 **Q. HOW DID YOU DETERMINE THE USAGE CHARGE FOR**
20 **PURCHASED WATER AND SEWER CUSTOMERS?**

21 A. The usage charge for purchased water and sewer systems reflect the
22 suppliers' current usage charge, with the exception of the City of
23 Hendersonville (water), Winston-Salem (water), and the Town of

1 Dallas (sewer), who have tier rates. The usage charge for the three
2 suppliers listed above was calculated based on the average monthly
3 usage for each individual service area. The average monthly usage
4 was applied utilizing the tiered rates for the supplier. For suppliers who
5 also charge a base charge, the base charge was included in the
6 updated purchased water expenses and sewer treatment expenses.
7 Should CWSNC apply for a pass-through outside a general rate case,
8 the usage charge would reflect any increase in the base charge, and
9 the usage charge would then be trued up in the next general rate case.

10 **Q. WHAT IS YOUR RECOMMENDATION CONCERNING CWSNC'S**
11 **PROPOSED RATES?**

12 A. The Public Staff recommends a partial rate increase for Uniform Water
13 and Uniform Sewer and a rate decrease for TC/BF/FH and BF/FH. I
14 have included two recommended rate designs, one without the CAM
15 and one with the CAM. My rate design without the CAM utilizes a 45/55
16 ratio, base charge to usage charge, for water and 65/35 ratio for sewer,
17 and my rate design with the CAM utilizes a 30/70 ratio for water and a
18 55/45 ratio for sewer. My revenue calculations are shown on
19 Casselberry Exhibit Nos. 17, 18, 19, 20, 21, 22, 23 and 24.

20 **Q. WHAT IS YOUR RECOMMENDATION IN REGARD TO UNIFORM**
21 **SEWER RATES FOR CLMS?**

1 A. The rates for CLMS have remained the same for the last three general
2 rate cases to allow the uniform sewer rates time to catch up with
3 CLMS's sewer rates. It is the Public Staff's position that CLMS should
4 be fully incorporated into the Uniform Sewer Rate Division and that the
5 Public Staff's recommend rates for uniform sewer should apply to
6 CLMS customers. Based on my recommend rates, the average
7 monthly bill for residential customers in CLMS would increase from
8 \$73.43 to \$73.50 without CAM and from \$73.43 to \$73.77 with CAM,
9 based on an average usage of 3,228 gallons. The Company's present
10 rates, proposed rates, and the Public Staff's recommended rates, with
11 and without CAM, are shown on Casselberry Exhibit Nos. 25, 26 27
12 and 28.

13 **Q. WHAT IS YOUR RECOMMENDATION IN REGARD TO THE**
14 **INCREASE OF THE RECONNECTION FEE?**

15 A. CWSNC is proposing to increase the reconnection fee from \$27.00 to
16 \$42.00. The Public Staff does not oppose the increase.

17 **Q. WHAT IS YOUR RECOMMENDATION IN REGARD TO INCREASE**
18 **THE CONNECTION CHARGE (TAP FEE) FOR LONESOME**
19 **VALLEY AND WINSTON POINTE?**

20 A. CWSNC has notified the Public Staff that it has withdrawn its request
21 to increase the water and sewer connection charge (tap fee) for
22 Lonesome Valley.

1 CWSNC is proposing to increase the water connection charge from
2 \$500 to \$1,080 and the sewer connection charge from \$2,000 to
3 \$2,635 for Winston Pointe Subdivision, Phase IA. In Docket No. W-
4 354, Sub 160, dated October 15, 2002, the Commission approved a
5 connection charge of \$500 for water and \$2,000 for sewer. However,
6 it was stated in Paragraphs 8 and 9, that CWSNC planned to
7 interconnect the water distribution system and the sewage collection
8 system in Winston Pointe and White Oak Plantation to the Johnston
9 County's water system and wastewater facility and purchase bulk
10 water and sewer from Johnston County. The interconnection was
11 made, and CWSNC is purchasing bulk water and sewer treatment from
12 Johnston County. It is the Public Staff's position that the connection
13 charge should reflect Johnston County's bulk capacity fee for water
14 and sewer. Based on the current bulk water and wastewater service
15 agreement with Johnston County, the bulk capacity fee for water is
16 \$1,080 and \$1,400 for sewer. The Public Staff recommends a
17 connection charge of \$1,080 for water and \$1,400 for sewer. CWSNC
18 has indicated that they agree with the Public Staff's recommendation.

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

20 **A.** Yes.

STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH

CAROLINA WATER SERVICE, INC. OF NORTH CAROLINA
DOCKET NO. W-354, SUB 364

SUPPLEMENTAL TESTIMONY OF GINA Y. CASSELBERRY
ON BEHALF OF THE PUBLIC STAFF

NOVEMBER 15, 2019

1 Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL
2 TESTIMONY?

3 A. The purpose of my supplemental testimony is to discuss customer
4 complaints and witness testimony at public hearings.

5 Q. HAS THE PUBLIC STAFF RECEIVED ANY CUSTOMER
6 COMPLAINTS AS A RESULT OF THE CUSTOMER NOTICES IN
7 THIS PROCEEDING?

8 A. Yes. The Public Staff reviewed approximately 316 position
9 statements from Carolina Water Service, Inc. of North Carolina
10 (CWSNC) customers. The service areas represented are Belvedere
11 (1), Brandywine Bay (2), Carolina Pines (1), Carolina Trace (11),
12 Corolla Light/Monteray Shores (1), Connestee Falls (48), Fairfield
13 Harbour (33), Kings Grant (1), Sapphire Valley (2), The Point (161),
14 Treasure Cove (1), Ski Mountain (1), Waterglyn (1), Woodhaven (1),
15 and unspecified service areas (51). All of the customers objected to
16 the magnitude of the increase. Their primary concern was that

1 CWSNC was in for another rate increase when they just had an
2 increase in March 2019, less than six months ago. Most of the
3 customers in Connestee Falls said there was no justification for such
4 a large increase, that they had to pay the base charge for service
5 when they were not occupying their homes, and that they
6 experienced numerous leaks and boil water advisory notices over
7 the summer. The customers in Fairfield Harbour said that they were
8 still recovering from Hurricane Florence and that they could not afford
9 an increase. They also stated that the water quality was poor and
10 that they had to install individual softeners and filter systems. Nearly
11 all of the customers in The Point opposed CWSNC's proposed Pilot
12 Program. Their primary objections were: (1) customers in The Point
13 were being penalized and that the block rates should apply to all
14 CWSNC customers, (2) the average consumption did not take into
15 account customers who live on the lake and use lake water for
16 irrigation, (3) the covenants do not allow individual wells for irrigation,
17 and (4) the conditions and rules for landscaping would increase the
18 average bill by approximately 30 percent if the block tiered rates were
19 approved.

1 **General Concerns**

2 **Rate of Return:**

3 The rate of return is addressed in Public Staff Economist, John
4 Hinton's testimony.

5 **Annual Inflation/Consumer Price Index:**

6 The revenue requirement used to calculate rates is based on the
7 Public Staff's audit of actual expenses and capital expenditures. See
8 Public Staff Accountant, Lynn Feasel's testimony.

9 **Federal Tax Act:**

10 The impact of the new law concerning state and federal taxes is
11 addressed in Public Staff Accountant, Michelle Boswell's testimony.

12 **Comparison between Private Utilities and Municipalities:**

13 It is inappropriate to compare the rates of private Commission-
14 regulated utilities like CWSNC to municipalities or county systems for
15 the following reasons:

- 16 1. Economies of Scale: The operational costs per customer are
17 lower for customers of municipalities because of service area
18 density and economies of scale, as there are tens of
19 thousands of customers versus thousands of customers

1 among whom the costs are divided. CWSNC serves
2 approximately 30,800 water customers and 20,100 sewer
3 customers; and operates 96 water systems and 37 sewer
4 systems across 38 counties spanning from the mountains to
5 the coast. Charlotte Water, for example, is a regional supplier
6 of drinking water and has over 834,000 customers in one
7 county, a much larger customer base from which to recover
8 its fixed costs.

9 2. Water Source: The majority of CWSNC's water production is
10 through a series of wells, utilizing ground water. The majority
11 of municipalities, at least in North Carolina, utilize surface
12 water. For example, the City of Sanford has an abundant
13 water supply from a single surface water source, the Cape
14 Fear River. The City's water treatment plant is located in close
15 proximity to the headwaters of the Cape Fear River.
16 Depending on the size of the service area, CWSNC may have
17 dozens of wells throughout the service area. A single well
18 might pump 20 gallons per minute (28,800 gallons per day),
19 whereas the treatment facility in Sanford produces on
20 average seven million gallons per day. When comparing
21 CWSNC's water system to the City of Sanford's operation, it
22 is apparent the water sources, the type of treatment,
23 equipment, personnel, and operating expenses are very

- 1 different. Additionally, the economies of scale for the larger
2 City water system are overwhelming.
- 3 3. Regulation: Investor-owned utilities are regulated by the State
4 of North Carolina. The general statutes allow a utility the right
5 to recover its operational expenses and a reasonable rate of
6 return. Municipal or county systems are not regulated by the
7 North Carolina Utilities Commission (Commission) and may
8 subsidize the operating expenses of their utility systems
9 through taxation. Capital projects: Investor- owned utilities
10 fund capital projects through private investors or loans.
11 Municipalities and county systems may qualify for low interest
12 tax-free bonds and other loans to fund capital projects.
- 13 4. Rate of Return: Under North Carolina General Statutes,
14 investor-owned utilities have the right to earn a rate of return
15 on their investment and to recover their operating expenses.
- 16 5. Income Tax: Investor-owned utilities pay Federal and North
17 Carolina income taxes whereas municipality owned utilities do
18 not.

19 Comparison between Private Utility Companies:

20 The Commission approves rates for each investor owned utility
21 company based on the company's individual books and records.

1 Justification for the Rate Increase:

2 One of the main reasons cited by CWSNC for the rate increase is to
3 recover its investment for capital improvements. Since CWSNC's
4 last general rate case in 2018, CWSNC has spent approximately
5 \$20,841,126 dollars on infrastructure for water and sewer systems
6 across North Carolina.

7 Base Facility Charge:

8 The base facility charge and rate design is discussed in Public Staff
9 Engineer, Charles Junis' testimony.

10 The Point Subdivision:

11 The proposed pilot program for The Point service area is discussed
12 in the testimony of Public Staff witness Junis' testimony.

13 Service and Water Quality Complaints

14 Service and water quality issues are addressed with customer
15 hearings.

1

Customer Hearings

2

Charlotte Hearing

3 Four customers testified at the hearing in Charlotte: William Colyer,
4 Rachel Fields, William Michael Wade and James Sylvester. They all
5 represented the Bradfield Farms subdivision. In regard to the rates,
6 the primary concerns were the frequency of rate increases, 2017,
7 2018, and again in 2019; and the magnitude of the increases. The
8 four customers testified that the water tasted bad, that the water was
9 hard, and that it left a white film on glasses, in ice trays, and fixtures.
10 CWSNC's supplemental report filed on November 7, 2019, verified
11 that the white film appeared to be consistent with dissolved
12 compounds of calcium and magnesium. Other test results
13 established that the water had a hardness of 143 milligrams per liter
14 (mg/L). Water is usually considered hard when it has a calcium
15 carbonate value between 121 to 180 mg/L. The hardness of the
16 water or taste is not regulated by DEQ. As a result, customers who
17 do not like the hardness or taste can choose to install their own
18 individual filter system. However, if the majority of home owners want
19 a central filter system, then it is the Public Staff's position that a
20 monthly surcharge could be added to customers' bills in Bradfield
21 Farms to recover the cost for the system. The Public Staff
22 recommends that CWSNC provide an estimate for the cost of

1 installing a central water filter system within 60 days from the date of
2 a final Commission order in this docket, which then could be brought
3 before the subdivision's homeowners association for their input.

4 Manteo Hearing

5 No customers testified at the hearing in Manteo.

6 On September 25, 2019, CWSNC filed its Report on Customer
7 Comments from Public Hearings held in Charlotte and Manteo, North
8 Carolina on September 5 and 10, 2019, respectively. I have read the
9 report and other than my recommendation for Bradfield Farms I have
10 no further comments or recommendations.

11 Boone Hearing

12 No customers testified at the hearing in Boone.

13 Asheville Hearing

14 Nine customers testified at the hearing in Asheville: Chuck Van
15 Rens, Jack Zinselmeier, Jeff Geisler, Phil Reitano, Jeannie Moore,
16 Linda Huber, Brian McCarthy, Ron Shuping and Steve Walker,
17 representing the Fairfield Mountain service area, Connestee Falls,
18 and Woodhaven. All of the customers oppose the magnitude of the
19 rate increase and the frequency of rate increases, three in the last
20 three years. Several customers compared CWSNC's rates to

1 municipalities or other private utility companies, the Consumer Price
 2 Index, and the rate of inflation, which are addressed under general
 3 concerns. With the exception of several customers in Fairfield
 4 Mountain who stated that their new meter box was full of water,
 5 customers in both the Fairfield Mountain service area and
 6 Woodheaven Subdivision were satisfied with their service.

7 Several customers in Connestee Falls stated that there was no
 8 justification for an increase. Customers in Connestee Falls also
 9 complained about the number of boil water notices and that the lake
 10 was closed on several occasions due to wastewater spills. Mr.
 11 Walker stated that he was concerned with the amount of fluoride in
 12 the water.

13 Connestee Falls

14 Under the general statutes, capital improvements must be used and
 15 useful before a utility company can recover its investment through
 16 rates. Since the last general rate case in 2018, CWSNC has spent
 17 approximately \$9,349,383 on capital improvements for the water and
 18 sewer systems in Connestee Falls. Water and sewer projects
 19 included the following:

20	Redzone (identifying main replacement)	
21	Water main replacement	\$ 161,949
22	AMR Meter replacement	\$ 430,648
23	Lift station replacement	\$1,179,460
24	360,000 gpd WWTP replacement	\$7,577,326

1 In regard to charging the base charge when customers are not
2 occupying their homes, CWSNC is required to provide water and
3 sewer utility service for the entire year. In order to stay in compliance,
4 a base charge is needed to cover a portion of the fixed costs
5 associated with operating the water and sewer system 365 days a
6 year. Such costs include testing, salaries, purchased power,
7 maintenance and repairs, insurance, listing just a few.

8 I have reviewed the Report on Customer Comments from Public
9 Hearings Held in Boone and Asheville, North Carolina on October 8
10 and 9, 2019, respectively, and the Annual Water Quality Reports for
11 2019; and I am satisfied that customer concerns have been
12 addressed. CWSNC reported that the Company sent an operator to
13 modify or raise meter boxes that were ponding and that a new
14 automatic flushing valve was also added to Ms. Moore's line. I agree
15 with CWSNC that replacing old lift stations in Connestee Falls should
16 reduce the potential for over flows and that the level of fluoride is
17 within the maximum contaminant level (MCL) allowed. I have no
18 further recommendations.

19 Raleigh Hearing

20 Four customers testified at the hearing in Raleigh: Alfred Rushatz,
21 Vince Roy, Mark Gibson and David Smoak, representing Carolina
22 Trace and Ashley Hills North. All four customers opposed the

1 magnitude of the rate increase, particularly the high base charge. Mr.
2 Rushatz, who is a realtor in Carolina Trace, stated that the high cost
3 of water and sewer is a deterrent to potential buyers. He also said
4 many new home owners are unaware of the high cost of water and
5 sewer until they receive their first bill. Mr. Roy opposed the WSIC
6 and SSIC program. He stated that the Company would not give
7 Carolina Trace copies of the new GPS mapping for the water and
8 sewer systems. He also stated that the last rate increase did not
9 include a reduction related to the recent federal "Tax Bill" and that
10 customers were not allowed to communicate with on-site personal
11 directly. Mr. Gibson discussed the magnitude of the rate increases
12 from 2013 to 2019 in comparison to the Consumer Price Index (CPI).
13 He was concerned with capital projects and questioned whether
14 projects were constructed using subcontractors or CWSNC
15 employees. He also questioned who was responsible for approving
16 capital projects and monitoring the quality of the work. Mr. Smoak
17 suggested that the notice to customers include the annual cost for
18 water and sewer. He questioned whether homeowners could put in
19 their own septic system or was there an agreement with CWSNC
20 preventing customers from disconnection from the system. No
21 specific service problems or water quality issues were raised.

22 In the last general rate case, CWSNC proposed a base charge to
23 usage charge ratio of 60:40 for water service. The Public Staff

1 recommended a base charge to usage charge ratio of 45:55 for water
2 service. The Commission approved a ratio of 52:48 for water service
3 and no change to the ratio for sewer, which is approximately 80:20.
4 In this proceeding, the Public Staff is again recommending a base
5 charge to usage charge ratio of 45:55 without a consumption
6 adjustment mechanism (CAM), a ratio of 30:70 with a CAM for water
7 service; and is recommending a ratio of 65:45 without a CAM and
8 55:45 with a CAM for sewer service as discussed in Public Staff
9 Engineer Junis' testimony.

10 In regard to the WSIC/SSIC program, under the Commission's rules
11 the Public Staff is required to review all potential WSIC/SSIC projects
12 to ensure that each project qualifies under the statutory guidelines.
13 The Public Staff also conducts a complete audit for each project and
14 presents its recommendation to the Commission. In CWSNC's last
15 filing, in Docket No. W-354, Sub360A, the Public Staff opposed the
16 majority of the projects submitted, stating that, in its opinion, the
17 Company did not meet the qualifications under the statutory
18 guidelines, resulting in a decrease of \$0.03 for the average uniform
19 water bill and an increase \$0.07 for the average uniform sewer bill.

20 Mr. Roy stated that CWSNC changed its mind in regard to giving
21 copies of the GPS maps to Carolina Trace. It is the Public Staff's
22 opinion that due to security reasons, and that it is a public water

1 supply, CWSNC should take the necessary precautions to safe
2 guard the systems from potential harm. Mr. Roy also questioned
3 whether customers received a refund under the Federal Tax Cuts
4 and Jobs Act. Customers did receive a full refund. The details can
5 be found in Public Staff Accountant Boswell's testimony.

6 In response to Mr. Gibson's concern with capital improvements, the
7 Public Staff conducts a complete and thorough audit of capital
8 projects. The results of the Public Staff's audit can be found in Public
9 Staff Accountant Feasel's testimony.

10 Mr. Smoak questioned whether a utility company can prevent a
11 customer from discontinuing service if they install their own well or
12 septic system. Under the general statutes, a utility company cannot
13 force a customer to stay on their system should they have the option
14 to install their own well or septic system. A utility company regulated
15 by the Commission is required to provide service to any customer
16 within its service area, with the exception for nonpayment, at the
17 customer's request.

18 I have reviewed the Report on Customer Comments from Public
19 Hearing Held in Raleigh, North Carolina on October 14, 2019; and I
20 am satisfied with the Company's response. I have no further
21 recommendations.

1 Jacksonville Hearing

2 Six customers testified at the hearing in Jacksonville: Danny Conner,
3 Ralph Tridico, James C. Kraft, John Gumbel, Dave Stevenson and
4 Irving Joffee, representing Treasure Cove, Fairfield Harbour,
5 Brandywine Bay and Carolina Pines. All six customers opposed the
6 magnitude of the increase, especially the high base charges, the
7 frequency of rate increases and the proposed surcharge for a Storm
8 Reserve Fund.

9 Mr. Conners stated that he sent a letter to CWSNC with a number of
10 questions concerning the water system in Treasure Cove but the
11 Company did not respond until he contacted the Public Staff's
12 Consumer Services Division, twice. Mr. Connor's complaint and the
13 Company's reply were filed with Commission in this Docket on
14 October 15, 2019. I have read the Company's response and have no
15 further comments.

16 Mr. Tridico, a resident of Fairfield Harbour, complained that the
17 chlorine levels in the water system are inconsistent, that there is
18 settlement in the water which leaves filters brown, and that the
19 Company does not read the meters on a monthly bases. Mr. Joffee
20 and Mr. Stevenson, also residents of Fairfield Harbour, complained
21 as to the quality of the water.

1 In CWSNC's previous rate case in 2018, the Public Staff investigated
2 whether installing a central water filter system for Fairfield Harbour
3 was a prudent investment. In that proceeding, the Public Staff
4 determined it was not prudent to install a central water filter system,
5 because most customers had individual water softeners and filter
6 systems in their homes and the cost in 2011 to install the system was
7 approaching one million dollars. However, since it still remains an
8 issue with customers, the Public Staff recommends that if the
9 majority of homeowners want a central filter system, then a monthly
10 surcharge could be added to customer bills in the Fairfield Harbour
11 service area to recover the cost for the system. The Public Staff
12 recommends that CWSNC provide an estimate for the cost of
13 installing a central water filter system within 60 days from the date of
14 a final Commission order in this docket, which then could be
15 presented to homeowners for their consideration.

16 Mr. Craft, a resident of Brandywine Bay, stated that the water quality
17 was poor and that the sediment in the water causes stains, especially
18 when the customer leaves for an extended period of time. He also
19 stated that, on occasion, the water has a yellowish color. It is not
20 uncommon for sediment to collect in the pipes when the water is not
21 in use for extended periods of time. It is recommended that
22 customers flush their lines when they return to their homes after an
23 extended period of time away to clear the lines of sediment buildup.

1 Mr. Gumbel resides in Carolina Pines and stated that the rate
2 increase should be denied in comparison to the CPI. He also stated
3 that he had no service or water quality concerns. The Public Staff
4 recommended rates are based on its audit of Company books and
5 records, which are presented in Public Staff Accountant Feasel's
6 testimony.

7 Mr. Stevenson testified that he opposed the proposed Storm
8 Reserve Fund. The Public Staff opposed the Storm Reserve Fund
9 as discussed in Public Staff Accountant Henry's testimony.

10 On November 8, 2019, CWSNC filed its Report on Customer
11 Comments from Public Hearing Held in Jacksonville, North Carolina
12 on October 22, 2019. I have read the report and other than my
13 recommendation for the Fairfield Harbour Service Area, I have no
14 further comments or recommendations.

15 **Conclusion**

16 It is the Public Staff's opinion that with the exception of a few isolated
17 service issues, which the Company has addressed or is in the
18 process of resolving, the overall quality of service is good. It is also
19 the Public Staff's opinion that water quality meets the standards set
20 forth by the Safe Drinking Water Act and is satisfactory.

- 1 Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY?
- 2 A. Yes.

1 MS. HOLT: Ms. Casselberry is available for
2 cross examination.

3 MS. SANFORD: No questions.

4 MR. ALLEN: No questions.

5 COMMISSIONER BROWN-BLAND: All right.

6 Questions from the Commission? Commissioner Clodfelter.

7 EXAMINATION BY COMMISSIONER CLODFELTER:

8 Q Ms. Casselberry, I'm wondering if you could
9 generate a late-filed exhibit for us that takes the
10 Stipulation between the Public Staff and the Company and
11 generates a comparison for each of the four rate
12 divisions of what a typical monthly residential customer
13 bill would look like under the Stipulation, as compared
14 to the existing rates in effect, and also include Corolla
15 Light and Monterey Shores separately as a separate item?
16 Would that be possible for you to do?

17 A Yes.

18 Q Great.

19 A I can do that.

20 Q I'd like to request that.

21 EXAMINATION BY COMMISSIONER BROWN-BLAND:

22 Q All right. Ms. Casselberry, in your prefiled
23 testimony there was discussion or concerns that you
24 raised regarding the Company's billing data that you had

1 reviewed, and you recalled past Commission Orders that
2 pertain to this matter as well, and you talked about
3 compliance or lack of compliance or ability to fully
4 comply, and then Witness DeStefano responded in his
5 rebuttal. Are you and the Public Staff satisfied with
6 the rebuttal responses, or do you have further comments
7 or recommendations that the Commission should consider on
8 this point?

9 A No. I think we're both in agreement that -- of
10 the concern in the billing data and what needs to be
11 presented going forward.

12 Q All right. And so you have no additional
13 concerns about the Company's ability to improve on that
14 situation?

15 A No. Based on his testimony, he said that they
16 would be able to provide the billing data that we're
17 looking for active customers, so we're good with that, as
18 long as they provide it.

19 Q All right. And you heard earlier discussion
20 regarding your testimony related to the uranium. Do you
21 have anything else to add to what Mr. Mendenhall was able
22 to --

23 A No. I think he covered it well.

24 Q All right.

1 COMMISSIONER BROWN-BLAND: Any further
2 questions for this witness?

3 (No response.)

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

6 EXAMINATION BY MS. HOLT:

7 Q Ms. Casselberry, following up on Commissioner
8 Brown-Bland's question to you regarding the billing data,
9 wasn't that also, that testimony regarding billing data,
10 a subject matter of Witness Charles Junis' testimony?

11 A No. I covered the billing data in my
12 testimony, and there was a discrepancy between active
13 customers and the billing data, but it was strictly in my
14 testimony.

15 Q Okay. Thank you.

16 COMMISSIONER BROWN-BLAND: All right. We have
17 no further questions from Ms. Casselberry, so Public
18 Staff?

19 MS. HOLT: As a housekeeping matter, I'd like
20 to move in the testimony and exhibits of the excused
21 witnesses.

22 COMMISSIONER BROWN-BLAND: Well, with regard to
23 Ms. Casselberry --

24 MS. HOLT: Oh.

1 COMMISSIONER BROWN-BLAND: -- her exhibits?

2 MS. HOLT: Yes. I'd like to move the admission
3 of Ms. Casselberry's exhibits.

4 COMMISSIONER BROWN-BLAND: All right.

5 MS. HOLT: Her 28 exhibits.

6 COMMISSIONER BROWN-BLAND: All right. Those
7 will be received into evidence at this time without
8 objection.

9 (Whereupon, Casselberry Exhibit Numbers
10 1 through 28 were admitted into evidence.)

11 COMMISSIONER BROWN-BLAND: Ms. Casselberry,
12 you're excused.

13 (Witness excused.)

14 COMMISSIONER BROWN-BLAND: And I think we'll
15 hold off on the other Public Staff witnesses, if you
16 don't mind, till we finish the Applicant's case.

17 MS. HOLT: Okay.

18 MS. SANFORD: Actually, I'd like to be heard,
19 if I might, on that. We had agreed -- this is what the
20 parties had agreed to and had informed the Commission.
21 We'll do as you please. We had agreed that the Public
22 Staff would go first with the panel that's to deal with
23 deferred accounting, and then we'll do our direct and
24 rebuttal following that. So if that continues -- if

1 that's acceptable to the Commission, that's what we would
2 propose to do.

3 COMMISSIONER BROWN-BLAND: All right. That's
4 acceptable to the Commission. So we're to the next
5 panel.

6 MS. HOLT: Okay. You still want me to wait
7 until the end of our case to move in the testimony?

8 COMMISSIONER BROWN-BLAND: I think it will be a
9 little more coherent in the record if we do it --

10 MS. HOLT: Sure. Certainly. The Public Staff
11 calls as a panel Windley Henry and Charles Junis.

12 WINDLEY E. HENRY AND

13 CHARLES JUNIS; Having first been duly sworn,

14 Testified as follows:

15 DIRECT EXAMINATION BY MS. HOLT:

16 Q Mr. Henry, I'll start with you first. Please
17 state your name, business address, and position for the
18 record.

19 A (Henry) My name is Windley Henry. My business
20 address is 430 North Salisbury Street, Raleigh, North
21 Carolina. I'm the Accounting Manager of the Water, Sewer
22 and Telecommunications Section of the Public Staff
23 Accounting Division.

24 Q Did you cause to be prefiled in this docket on

1 November 4th, 2019, testimony in question and answer form
2 consisting of 8 pages and one exhibit?

3 A Yes, I did.

4 Q If you were asked, though, do you have any
5 additions or changes to be made to that testimony?

6 A No, I do not.

7 Q On November 18 did you file Revised Exhibit 1?

8 A Yes, I did.

9 Q Do you have any further changes to that?

10 A No, I do not.

11 Q Also, on November 27, 2019, did the Public
12 Staff file, under your directions, settlement exhibits in
13 support of the Partial Settlement Agreement and
14 Stipulation filed on that same date?

15 A Yes, we did.

16 Q If I were to ask you the same questions today
17 as stated in your prefiled testimony, would your answers
18 be the same?

19 A Yes, they would.

20 MS. HOLT: At this point I'd -- I request that
21 the testimony of Mr. Henry, consisting of 8 pages, be
22 copied into the record as if given orally from the stand,
23 and that his Exhibit I and Revised Exhibit I and
24 Settlement Exhibits I and II in support of the Partial

1 Settlement Agreement be identified as premarked.

2 COMMISSIONER BROWN-BLAND: That motion will be
3 allowed, and his testimony will be received into
4 evidence, treated as if given orally from the witness
5 stand, and the exhibits -- Settlement Exhibits I and II,
6 as well as his Exhibit 1 and Revised Exhibit 1 will be
7 identified as they were when prefiled.

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

11 (Whereupon, Public Staff Henry Exhibit I
12 and Revised Public Staff Henry Exhibit I
13 were identified as premarked.)

14 (Settlement Exhibits I and II were
15 admitted into evidence in Volume 7.)

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BEFORE THE NORTH CAROLINA UTILITIES COMMISSION
DOCKET NO. W-354, SUB 364

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

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

**CAROLINA WATER SERVICE, INC. OF NORTH CAROLINA
DOCKET NO. W-354 SUB 364**

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

November 4, 2019

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

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

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

10 A. I have been employed by the Public Staff since July 16, 1990.

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

13 A. I am a graduate of the University of North Carolina at Wilmington with
14 a Bachelor of Science degree in Accountancy. I am a Certified Public
15 Accountant licensed in the State of North Carolina. Prior to joining
16 the Public Staff, I was employed by the Seymour Johnson Federal
17 Credit Union. My duties there involved supervision of the accounting

1 department and preparing financial reports. I joined the Public Staff
2 as a Staff Accountant on July 16, 1990. Since joining the Public Staff,
3 I have presented testimony and exhibits in numerous cases before
4 this Commission involving water, sewer, and natural gas utilities.

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

6 A. I am responsible for the performance and supervision of the following
7 activities: (1) the examination and analysis of testimony, exhibits,
8 books and records, and other data presented by utilities and other
9 parties involved in Commission proceedings; and (2) the preparation
10 and presentation to the Commission of testimony, exhibits, and other
11 documents in those proceedings.

12 **Q. WHAT IS THE NATURE OF THE APPLICATION IN THIS**
13 **PROCEEDING?**

14 A. On June 28, 2019, Carolina Water Service, Inc. of North Carolina
15 (CWSNC or Company) filed an application with the Commission
16 seeking authority to adjust and increase rates for all of its water and
17 sewer service areas in North Carolina. My investigation included a
18 review of the application filed by CWSNC, an examination of the
19 Company's books and records for the test year, and a review of
20 additional documentation provided by the Company in response to
21 written and verbal data requests.

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

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

11 **Q. MR. HENRY, PLEASE DESCRIBE YOUR RECOMMENDED**
12 **ADJUSTMENTS.**

13 A. My adjustments are described below.

14 **DEFERRAL ACCOUNTING PETITION**

15 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO CWSNC'S**
16 **PROPOSED DEFERRAL ACCOUNTING PETITION.**

17 A. On June 28, 2019, in Docket No. W-354 Sub 365 (Sub 365), CWSNC
18 filed a Petition with the North Carolina Utilities Commission
19 (Commission) for an Accounting Order to defer post-in-service
20 depreciation and financing costs related to major new projects from
21 the date those assets are placed in service until the date the costs
22 are reflected in base rates. In its Petition, CWSNC describes four

1 major new projects for which the Company is requesting authority
2 to defer for inclusion in this rate case proceeding. Those four
3 projects consist of the Connestee Falls wastewater treatment plant
4 (WWTP), the Nags Head WWTP, Fairfield Mountain automated
5 meter reading (AMR) meters, and Connestee Falls AMR meters.

6 The Public Staff filed initial comments regarding the Company's
7 Petition on September 20, 2019, in which the Public Staff did not
8 oppose deferral accounting treatment for costs related to the WWTP
9 at Nags Head and Connestee Falls. However, in those same initial
10 comments, the Public Staff recommended the Commission deny
11 deferral accounting treatment for the AMR meters installed in
12 Fairfield Mountain and Connestee Falls. As stated by the Public Staff
13 in its comments, CWSNC has failed to make a clear, complete, and
14 convincing showing that the costs of the AMR meters are of an
15 unusual or extraordinary nature and, absent deferral, will have a
16 material impact on the Company's financial condition.

17 Based on the Public Staff's recommendation in the Sub 365 Petition,
18 I have calculated deferred carrying costs of \$520,144 for the
19 Connestee Falls WWTP and \$578,634 for the Nags Head WWTP as
20 shown on Schedule 1 of Henry Exhibit I. It is my recommendation
21 that these carrying costs be amortized over a five-year period with
22 no unamortized balance included in rate base. The annual expense

1 for Uniform Sewer customers related to the deferred carrying costs
2 will be \$104,029 for the Connestee Falls WWTP and \$115,727 for
3 the Nags Head WWTP.

4 **STORM RESERVE FUND**

5 **Q. WHAT IS THE PUBLIC STAFF'S RECOMMENDATION**
6 **REGARDING THE COMPANY'S PROPOSED STORM RESERVE**
7 **FUND?**

8 A. In this proceeding, CWSNC has made a request to establish a storm
9 reserve fund to support extraordinary O&M costs resulting from
10 damages sustained in severe storms such as Hurricane Florence.
11 The Company proposes to create a monthly, flat surcharge for each
12 active customer's water and sewer service bill until the reserve
13 threshold of \$250,000 is reached. CWSNC proposes to collect a
14 monthly surcharge of \$0.42 per customer per month based on the
15 threshold of \$250,000.

16 In addition to the storm reserve fund, CWSNC has applied to
17 include in rates, an annualized level of storm expense calculated
18 using a three-year average of actual storm expenses incurred,
19 excluding Hurricane Florence expenses. The annualized level of
20 storm expenses would be booked to maintenance and repair
21 expense. In this proceeding, the Public Staff has amortized to
22 deferred maintenance expense Hurricane Florence storm costs over

1 a three-year period in accordance with the Public Staff's
2 recommendation in Docket No. W-354, Sub 363, which was
3 consolidated with this rate case docket, by Commission Order dated
4 June 6, 2019.

5 By including an annualized level of storm expense in rates, the
6 Company will over-collect the amount included in rates for storm
7 restoration costs during periods when actual costs are less than the
8 level reflected in rates and under collect when actual costs exceed
9 the amount included in rates. In theory, however, the Company
10 should approximately recover its actual expenses over the long run.

11 In this case, CWSNC is now proposing that, in addition to the
12 annualized level, the Company also be allowed to create a storm
13 reserve fund. The Company proposes that when the reserve
14 threshold is reached, the Company will suspend the surcharge
15 beginning the following billing month. As costs are incurred and
16 reserve funds are applied, the Company plans to re-initiate the
17 surcharge to replenish the reserve. The reserve funds will only be
18 utilized if the Company's costs for the last 12 months exceed the
19 level of normalized storm expenses included in base rate revenue
20 requirement.

21 It is the Public Staff's opinion that the Company's proposal to
22 implement a storm surcharge is unfair to ratepayers, who would pay

1 for costs that exceed the annualized level but realize no benefit if
2 actual costs are less than the annualized level. Since the
3 normalization should allow the Company to recover its actual
4 expenses over the long run, CWSNC's proposed use of a storm
5 reserve fund in addition to the recovery of a normalized expense
6 would ensure over-recovery in the long run. Therefore, the Public
7 Staff recommends that the Commission deny the Company's request
8 for a storm reserve fund.

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

10 A. Yes, it does.

1 Q Do you have a summary of your testimony?

2 A Yes, I do.

3 Q Please read it. Do you have a copy?

4 A Yes.

5 COMMISSIONER BROWN-BLAND: Mr. Henry, you can
6 go ahead and proceed.

7 A On June 28, 2019, Carolina Water filed an
8 application with the Commission seeking authority to
9 adjust and increase rates for all of its water and sewer
10 service areas in North Carolina. I performed an
11 investigation of the data in the application, as well as
12 the Company's books and records, and prefiled testimony
13 and an exhibit on November the 4th, 2019. On November
14 the 18th, 2019, I filed a revised exhibit that reflected
15 updates and revisions to my prefiled exhibit. I will now
16 summarize my more significant adjustments.

17 On June 28, 2019, in Docket Number W-354, Sub
18 365, Carolina Water filed a petition with the North
19 Carolina Utilities Commission for an Accounting Order to
20 defer post-in-test year -- post-in-service depreciation
21 and financing costs related to major new projects from
22 the date those assets were placed in service until the
23 date the costs are reflected in base rates. The Public
24 Staff filed initial comments regarding the Company's

1 petition on September the 20th, 2019, in which the Public
2 Staff did not oppose deferral accounting treatment for
3 costs related to the wastewater treatment plants at Nags
4 Head and Connestee Falls. However, in those same initial
5 comments the Public Staff recommended the Commission deny
6 deferral accounting treatment for the AMR meters
7 installed in Fairfield Mountain and Connestee Falls. As
8 stated by the Public Staff in its comments, Carolina
9 Water has failed to make a clear, complete, and
10 convincing showing that the cost of the AMR meters are of
11 an unusual or extraordinary nature and, absent deferral,
12 will have a material effect on the Company's financial
13 condition.

14 Based on the Public Staff's recommendation in
15 the Sub 365 petition, I've calculated deferred carrying
16 costs of \$520,144 for the Connestee Falls wastewater
17 treatment plant and \$578,634 for the Nags Head wastewater
18 treatment plant, as shown on Schedule 1 of Henry Exhibit
19 I. It is my recommendation that these carrying costs be
20 amortized over a five-year period with no unamortized
21 balance included in rate base.

22 In this proceeding Carolina Water has made a
23 request to establish a storm reserve fund to support
24 extraordinary O&M costs resulting from damages sustained

1 in severe storms such as Hurricane Florence. The Public
2 Staff opposed a request for storm reserve fund. In the
3 Joint Partial Settlement Agreement and Stipulation agreed
4 to by Carolina Water and the Public Staff, filed on
5 November 27, 2019, the Company has agreed to rescind this
6 request to implement its proposed storm reserve fund and
7 to utilize the Public Staff's position per Revised Feasel
8 Exhibit 1, Schedule 3-4. This concludes my summary.

9 Q Thank you. Mr. Henry, also on September 20th,
10 2019, the Public Staff filed comments in Docket Number
11 W-354, Sub 365, regarding the Company's petition for
12 deferral accounting treatment of the wastewater treatment
13 plants and the AMR meters. Did you contribute to the
14 comments filed in the Sub 365 docket?

15 A Yes, I did.

16 Q And that docket has been consolidated with this
17 rate case docket?

18 A That is correct.

19 Q You were asked questions pertaining to parts of
20 the comments to which you contributed. Would you be able
21 to answer them?

22 A Yes, I will.

23 Q Now, have there been any changes to the
24 information provided in the comments since you filed them

1 -- since we filed them on September 20th?

2 A Yes. On page 8 of the comments I referenced
3 that Public Staff has calculated a reduction of only 22
4 basis points of the Company's ROE allowed in the Sub 360
5 rate case. Those basis points have gone up to 24, from
6 22 to 24, based on additional cost of the AMR meters that
7 we did not have at the time we filed these comments.

8 Q Thank you. Now, Mr. Junis, please state your
9 name, business address, and position for the record.

10 A (Junis) Yes. My name is Charles M. Junis with
11 the Public Staff, Utilities Engineer for the Water,
12 Sewer, and Telephone Division. My business address is
13 430 North Salisbury Street, Raleigh, North Carolina.

14 Q Did you cause to be prefiled in this docket on
15 November 4th, 2019, testimony in question and answer form
16 consisting of 32 pages and one appendix?

17 A Yes, ma'am.

18 Q Do you have any additions or corrections to
19 make to your testimony?

20 A I do not.

21 Q If I were to ask you those same questions
22 today, would your answers be the same?

23 A Yes, they would.

24 MS. HOLT: I request that the testimony of Mr.

1 Junis, consisting of 32 pages, be copied into the record
2 as if given orally from the stand, and his appendix be
3 identified as premarked.

4 COMMISSIONER BROWN-BLAND: That motion will be
5 allowed, and the appendix will be identified as
6 premarked.

7 (Whereupon, the prefiled testimony of
8 Charles Junis and Appendix A were
9 copied into the record as if given orally
10 from the stand.)

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BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. W-354, SUB 364

In the Matter of
 Application of Carolina Water Service,)
 Inc., of North Carolina, Post Office Box)
 240908, Charlotte, North Carolina)
 28244 for Authority to Adjust and)
 Increase Rates for Water and Sewer)
 Utility Service in All Service Areas in)
 North Carolina)

TESTIMONY OF
 CHARLES JUNIS
 PUBLIC STAFF – NORTH
 CAROLINA UTILITIES
 COMMISSION

**CAROLINA WATER SERVICE, INC. OF NORTH CAROLINA
DOCKET NO. W-354, SUB 364**

**TESTIMONY OF CHARLES JUNIS
ON BEHALF OF THE PUBLIC STAFF –
NORTH CAROLINA UTILITIES COMMISSION**

NOVEMBER 4, 2019

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

3 A. My name is Charles Junis. My business address is 430 North
4 Salisbury Street, Dobbs Building, Raleigh, North Carolina. I am an
5 engineer with the Water, Sewer, and Telephone Division of the
6 Public Staff – North Carolina Utilities Commission (Public Staff).

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

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

9 **Q. WHAT IS THE NATURE OF THE APPLICATION IN THIS RATE**
10 **CASE?**

11 A. Carolina Water Service, Inc. of North Carolina (CWSNC or
12 Company) filed an application with the Commission on June 28,
13 2019, in Docket No. W-354, Sub 364, seeking authority to increase
14 rates for providing water and sewer utility service in all of its service
15 areas in North Carolina.

1 **Q. BRIEFLY EXPLAIN THE SCOPE OF YOUR INVESTIGATION**
2 **REGARDING THIS RATE INCREASE APPLICATION.**

3 A. My areas of investigation in this proceeding have been the review of
4 the proposed pilot program, consumption adjustment mechanism,
5 and rate design principles.

6 **THE POINT PILOT PROGRAM**

7 **Q. HAS THE COMPANY PROPOSED TO IMPLEMENT A PILOT**
8 **PROGRAM?**

9 A. Yes, in its application and reaffirmed in the supplemental testimony
10 of CWSNC witness Dante DeStefano, the Company has proposed a
11 pilot program to implement tiered inclining block rates to be charged
12 to water customers in The Point Subdivision on Lake Norman in
13 Iredell County.

14 **Q. WHAT IS THE PUBLIC STAFF'S POSITION ON CWSNC'S**
15 **PROPOSED PILOT PROGRAM?**

16 A. The Public Staff has concerns about the practicability and value of
17 the proposed pilot program. While well-designed inclining block rates
18 can effectively promote conservation, the Public Staff believes the
19 Company's proposed pilot program: 1) is limited and not a
20 representative sample of Uniform Water residential customers, 2)
21 would not "identify a level of conservation by customers or changes

1 in water use habits”¹ that could be reasonably expected from other
2 Uniform Water residential customers, 3) reverts ratemaking back to
3 system-specific rates as opposed to uniform, 4) ignores the passing
4 of House Bill 529 (Session Law 2019-88) and 5) the potential
5 benefit(s) of the program would be outweighed by the valuable
6 personnel resources of the Company, Public Staff, and Commission
7 required to implement and track the pilot .

8 Company witness DeStefano states that “the Company concluded
9 that the best path forward in addressing the conservation incentive,
10 in consideration of the Public Staff’s comments [in Docket No. W-
11 100, Sub 59], was to implement a trial tariff designed to address and
12 provide analytic data on customer consumption patterns.”² On pages
13 12 and 13 of his direct testimony, he provides a list of reasons the
14 Company contends support the selection of The Point subdivision for
15 the pilot program. From this list, it is clear that The Point has
16 significantly higher than average seasonal and non-seasonal usage,
17 makes up “5.75% of the [Company’s] pro-forma present rate bills”³,
18 and has atypical demographics, that are not representative of
19 Uniform Water residential customers. The CWSNC increasing blocks

¹ Direct Testimony of Dante M. DeStefano, filed June 28, 2019, Page 12.

² Supplemental Direct Testimony of Dante M. DeStefano, filed August 2, 2019, Pages 7 and 8.

³ Direct Testimony of Dante M. DeStefano, filed June 28, 2019, Page 13.

1 and rates proposed for The Point are unrealistic for potential future
2 implementation for Uniform Water residential customers.

3 For the reasons stated above, the Public Staff recommends that the
4 Commission deny the Company's proposal for a pilot program.

5 **Q. IS THE PUBLIC STAFF RECOMMENDING AN ALTERNATIVE TO**
6 **THE COMPANY'S PILOT PROGRAM?**

7 A. Yes, please see the recommendations in the Rate Design Principles
8 Section presented later in my testimony.

9 **CONSUMPTION ADJUSTMENT MECHANISM**

10 **Q. HAS THE COMPANY PROPOSED TO IMPLEMENT A**
11 **CONSUMPTION ADJUSTMENT MECHANISM?**

12 A. Yes, the Company requested Commission approval to implement a
13 consumption adjustment mechanism (CAM) to be imposed annually
14 and account for variances in average per customer usage from
15 values approved in the Company's most recent general rate case
16 proceeding.

17 **Q. WHAT IS THE PUBLIC STAFF'S POSITION ON CWSNC'S**
18 **REQUESTED CONSUMPTION ADJUSTMENT MECHANISM?**

19 A. The Public Staff believes the CAM, as proposed by CWSNC, is not
20 in the public interest and recommends that the Commission deny the
21 request to implement the mechanism.

1 As part of CWSNC's general rate case filed on April 27, 2018, in
2 Docket No. W-354, Sub 360, CWSNC requested Commission
3 approval of a rate adjustment mechanism to account for variability in
4 average monthly consumption per customer. The Commission's
5 Finding of Fact No. 63 stated that "CWSNC failed to demonstrate
6 that its proposed consumption adjustment mechanism is reasonable
7 or justified."

8 During Aqua North Carolina, Inc.'s (Aqua) general rate case, filed on
9 August 2, 2013, in Docket No. W-218, Sub 363 (Sub 363), the Public
10 Staff and Aqua entered into a stipulation and settlement agreement
11 wherein Aqua agreed to implement a study conducted by the
12 Environmental Finance Center (EFC) at the UNC School of
13 Government in lieu of implementing a CAM. Paragraph No. 13 of the
14 Sub 363 Stipulation provides that:

15 Aqua and the Public Staff disagree regarding whether
16 Aqua should be allowed to implement a "consumption
17 adjustment mechanism," as described in the prefiled
18 direct testimony of Aqua witnesses Szczygiel (pp. 10-
19 11) and Roberts (pp. 20-22). Aqua agrees to withdraw
20 this testimony and in lieu of pursuing that mechanism
21 in this case, the Company agrees with the Public Staff
22 that Aqua shall fund a study of mechanisms that
23 address the rate impact to customers and the revenue
24 impact to Aqua from significant changes in customer
25 consumption patterns, such study to be conducted by
26 the EFC at the same time as the volumetric sewer rate
27 study conducted pursuant to Paragraph 12 above. The
28 Stipulating Parties shall work together with the EFC to
29 determine the parameters of the study and shall jointly
30 oversee the performance of the study. Upon
31 completion of the study, a report setting forth the data,

1 methodology, assumptions, and findings of the study
2 shall be filed with the Commission by the Stipulating
3 Parties. Aqua may defer the costs of this study on its
4 books and request that such costs be amortized to the
5 cost of providing utility service in the Company's next
6 general rate case; provided, however, that the Public
7 Staff reserves the right during the next rate case to
8 contest the inclusion of such costs in the Company's
9 cost of service.

10 In the Sub 363 Order, the Commission ordered:

11 15. That the Company shall fund a study of
12 mechanisms that address the rate impact to customers
13 and the revenue impact to Aqua from significant
14 changes in customer consumption patterns, to be
15 conducted by the EFC at the same time as the
16 volumetric sewer rate study. Aqua and the Public Staff
17 shall work together with the EFC to determine the
18 parameters of the study and shall jointly oversee the
19 performance of the study. A report setting forth the
20 data, methodology, assumptions, and findings of the
21 study shall be filed with the Commission within 12
22 months after the date of this Order.

23 The EFC met with Aqua personnel and the Public Staff on multiple
24 occasions to discuss the studies and feedback. On March 31, 2016,
25 the final report on "Studies of Volumetric Wastewater Rate Structures
26 and a Consumption Adjustment Mechanism for Water Rates of Aqua
27 North Carolina, Inc." (EFC Report)⁴ prepared by the EFC were filed
28 jointly by Aqua and the Public Staff in Docket No. W-218, Sub 363A.

⁴ The Report to the Public Staff of the North Carolina Utilities Commission and Aqua North Carolina, Inc. on the Studies of Volumetric Wastewater Rate Structures and a Consumption Adjustment Mechanism for Water Rates of Aqua North Carolina, Inc. prepared by the Environmental Finance Center at the UNC School of Government was filed in Docket No. W-218, Sub 363A on March 31, 2016.

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

1 The stated main goals of the studies were to “assess the effect on
2 customer bills and Aqua revenues by implementing a volumetric
3 wastewater rate structure or implementing a consumption
4 adjustment mechanism water rate structures, relative to the status
5 quo.”⁵

6 As part of its next general rate case in Docket No. W-218, Sub 497,
7 Aqua again requested Commission approval of a rate adjustment
8 mechanism to account for variability in average monthly
9 consumption per customer. The Commission’s Finding of Fact No.
10 119 stated that “Aqua NC failed to demonstrate that its proposed
11 consumption adjustment mechanism is reasonable or justified.”

12 In both CWSNC’s and Aqua’s most recent general rate cases, the
13 Commission found persuasive the evidence presented and gave
14 substantial weight to the arguments made by the Public Staff and
15 Attorney General’s Office (AGO). The issues identified by the Public
16 Staff and AGO, including but not limited to, a variance threshold,
17 growth in the number of customers that the Company serves, and
18 discouragement of water conservation measures, from the previous
19 rate cases still exist and CWSNC has made no attempt to address
20 them. The threshold is the allowable variance within a set of
21 parameters and any variance that exceeds that parameter would

⁵ *Id.* at p 1.

1 trigger a response. For example, if average monthly usage per
2 customer is 5,000 gallons and the threshold is set to +/- 1%, then a
3 reduction in usage by 40 gallons would not exceed the threshold of
4 1% or 50 gallons and no action would be taken. The Company's
5 proposal doesn't include a threshold, which would mean that even
6 the smallest variation in the average monthly usage per customer
7 would trigger a rate adjustment requiring a filing, review, potential
8 approval, and customer notice.

9 The CAM, requested by CWSNC in this proceeding and previously
10 by Aqua in its last rate case, is proposed to utilize a monthly average
11 usage per customer that overlooks the short-term revenue gains
12 from customer growth. The EFC Report recognized that in the short-
13 term, between rate cases, the revenues exceed the costs of growth.⁶
14 In a year of decreased average usage, customer growth could offset
15 the lower per customer usage and result in the same or greater total
16 usage. In a year of increased usage, growth would contribute to the
17 Company potentially earning above and beyond the Commission's
18 approved rate of return. The CWSNC proposed CAM would allow
19 CWSNC to increase rates with an increment for decreased usage
20 even if customer growth caused the Company to otherwise collect or
21 possibly exceed its revenue requirement. Any mechanism that

⁶ *Id.* at pp 10 and 13.

1 benefits the Company by ensuring it collects its full revenue
2 requirement should also benefit customers by crediting customers
3 with revenue resulting from increased usage and/or customer
4 growth.

5 A CAM benefits the Company by providing greater certainty in the
6 amount of service revenues collected and as a result materially
7 reduces the Company's risk. The proposed CAM would potentially
8 disincentivize customers from actively conserving water by
9 monitoring their usage, changing their usage habits, and replacing
10 inefficient fixtures and/or appliances. Every dollar saved by reducing
11 usage would be surcharged back onto customers the following year.
12 Digging deeper, that dollar saved by one customer will impact all the
13 other customers in that customer's rate classification. To balance the
14 benefits to the Company, the Company's authorized rate of return
15 should be reduced to account for the transfer of risk from the
16 Company to customers. Rate of return is addressed in detail in the
17 testimony of Public Staff witness Bob Hinton. In addition, rate design
18 should send a more effective pricing signal to customers to promote
19 efficiency and conservation, as further discussed in the Rate Design
20 Principles Section presented later in my testimony.

21 CWSNC proposes to apply the CAM by rate division. According to
22 the testimony of CWSNC witness DeStefano and his Amended
23 Supplemental Exhibit #1, Page 2 of 2, purchased water/sewer,

1 residential, commercial, and irrigation customers would be combined
2 to calculate the average monthly usage per customer and the
3 weighted average usage rate by rate division. The Public Staff sent
4 Public Staff Data Request 76 pertaining to the proposed CAM, which
5 is attached as **Junis Exhibit No. 1**, which includes the Company's
6 complete response.

7 In response to the Public Staff's request⁷ for the basis for including
8 purchased water and sewer systems in the proposed CAM, CWSNC
9 stated the following:

10 The Company included purchased water and sewer
11 usage so as to include all volumetric activity that can
12 be impacted by conservation efforts and price
13 signaling.

14 The Company did not provide any additional reasoning or supporting
15 documentation for doing such. Generally, purchased water and
16 sewer systems are charged a pass-through commodity rate that
17 closely matches the commodity expense incurred by the utility from
18 the supplier. The base facility charges and fees from the supplier are
19 included in operating expenses and shared among customers in that
20 rate division. Short-term variability of the purchased water and sewer
21 expenses are almost entirely matched by the variability of the
22 commodity revenues of those systems. The purchased water and

⁷ Public Staff Data Request 76 Q1.a.

1 sewer systems should be excluded from any CAM because of the
2 short-term matching/offsetting of the expenses and revenue.

3 CWSNC's response to the Public Staff's request⁸, for the basis for
4 grouping different volumetric rate customers to calculate the average
5 usage per customer per month, was the following:

6 The Company proposes a weighted average of the
7 consumption of the various rate groups in order to
8 produce a consolidated rate adjustment. Using a
9 weighted average for usage per customer stabilizes
10 the potential rate impact by mitigating large swings in a
11 particular rate group's usage activity during the
12 reconciliation period.

13 The Company did not provide any additional reasoning or supporting
14 documentation for doing such. Moreover, the Company failed to
15 address the request pertaining specifically to the rate groups being
16 combined to calculate the average usage. The Public Staff
17 separately requested the basis for grouping residential and
18 commercial customers⁹ and the basis for using the weighted
19 approved volumetric rate for the Rate Division¹⁰. The Company's
20 responses refer back to the response it provided to Public Staff Data
21 Request 76 Q1.b., discussed above. However, consolidating the rate
22 adjustment disassociates the usage variance from the individual

⁸ Public Staff Data Request 76 Q1.b.

⁹ Public Staff Data Request 76 Q1.c.

¹⁰ Public Staff Data Request 76 Q1.d.

1 customer classifications or rate groups. For example, the average
2 usage per customer per month listed in Column B, Line 16, of witness
3 DeStefano's Amended Supplemental Exhibit #1, Page 2 of 2, is the
4 consumption of Volumetric – Uniform Water, Volumetric – Irrigation,
5 and Purchased Water customers totaled and divided by the end of
6 period (EOP) customers times 12 monthly bills. This means if
7 Whispering Pines purchased bulk water customers reduce their
8 consumption but all other customers' usage remains the same, then
9 Whispering Pines, the other Purchased Water, Volumetric – Uniform
10 Water, and Volumetric – Irrigation customers all would receive the
11 same surcharge according to the Company's proposed CAM.
12 Instead, it would be fair and reasonable for customer classifications
13 or rate groups that significantly change their amount of usage to
14 receive the associated surcharge/surcredit instead of mitigating
15 those variances through a weighted average of multiple rate groups.
16 CWSNC's response to the Public Staff's request¹¹, for the basis for
17 using a percent-of-bill based charge instead of an increment to the
18 usage rate, was the following:

19 The Company proposes a percent-of-bill basis for
20 surcharges in order to send a conservation price signal
21 to high-use (and generally larger metered) customers
22 and mitigate the impact of a surcharge on low-use
23 customers. The percent-of-bill basis is also used for

¹¹ Public Staff Data Request 76 Q1.f.

1 the current CWSNC WSIC/SSIC surcharges and
2 therefore is already familiar to customers.

3 The Company did not provide any additional reasoning or supporting
4 documentation for doing such. The percent-of-bill surcharge is
5 applied to the base facilities charge and the usage charges. This
6 methodology would be effectively increasing the base facilities
7 charge. The Company proposes that “should actual usage per
8 customer be more than the authorized level, the revenue variance
9 would be credited as a one-time, flat refund per customer.”¹² The
10 accuracy of a one-time, flat refund would heavily rely on the customer
11 counts.

12 To effectively and efficiently implement and track any consumption
13 adjustment mechanism requires accurate, consistent, and
14 practicable billing data. Unfortunately, CWSNC continues to have
15 inconsistent billing data issues that have occurred in multiple rate
16 cases. These issues are discussed in greater detail in the testimony
17 of Public Staff Engineer Gina Casselberry. Customer counts and
18 usage amounts are critical to the calculation of an accurate average
19 monthly usage per customer.

20 In summary, the Public Staff believes the CAM as proposed by
21 CWSNC is not in the public interest due to the issues presented

¹² Supplemental Direct Testimony of Dante M. DeStefano, filed August 2, 2019, Page 4.

1 above, including the Company's inconsistent billing data, the
2 surcharge/surcredit methodology, the consolidation of rate groups,
3 the disregard of the short-term benefits of growth, and its failure to
4 address the variance threshold. Therefore, the Public Staff
5 recommends that the Commission deny the Company's request to
6 implement the CAM as part of this proceeding.

7 ALTERNATIVE RECOMMENDATION

8 Should the Commission find the concept of a consumption
9 adjustment mechanism to be in the public interest, the Public Staff
10 recommends the Commission approve the implementation of the
11 Public Staff's rate adjustment mechanism to account for usage
12 variations and mitigate the financial risk of a rate design that properly
13 incentivizes water conservation. On October 31, 2019, the Public
14 Staff filed a petition¹³ for an order establishing rulemaking
15 proceeding to implement N.C. Gen. Stat. § 62-133.12A, North
16 Carolina Session Law 2019-88¹⁴ (House Bill 529), along with its
17 proposed rules for consumption adjustment mechanisms referred to
18 as the Water Usage Adjustment (WUA) and Sewer Usage
19 Adjustment (SUA). The Public Staff believes it is appropriate and

¹³ The Public Staff filed its petition and proposed rules in Docket No. W_100, Sub 61.

<https://starw1.ncuc.net/NCUC/ViewFile.aspx?Id=d2c8cddc-7bec-442c-94cb-2ddef217cc0d>

¹⁴ <https://www.ncleg.gov/Sessions/2019/Bills/House/PDF/H529v4.pdf>

1 necessary for the Commission to allow input from stakeholders,
2 including CWSNC and other water and sewer utilities such as Aqua
3 North Carolina, Inc. (Aqua)¹⁵, before potentially establishing a rate
4 mechanism with appropriately defined and consistent procedures.

5 The Public Staff proposed WUA and SUA are further developed
6 consumption adjustment mechanisms that are more practicable,
7 customer protective, and effective at achieving the revenue stability
8 sought by CWSNC. Revenue stability is the consistency and
9 reliability of the total charges collected by the utility from month-to-
10 month and/or year-to-year. The usage adjustment mechanisms
11 detailed in the Public Staff proposed rules account for year-to-year
12 variances in usage revenues from the Commission authorized levels
13 in the most recent general rate case. The revenue variance is then
14 charged/credited through an increment/decrement to the usage rate
15 during the following year. This is consistent with the customer usage
16 tracker or customer utilization adjustment (CUT), which are semi-
17 annual adjustments approved by the Commission for natural gas
18 utilities and more closely correlates usage variances with usage
19 rates. The increment/decrement would be trued-up with an
20 experience modification factor (EMF) as part of the annual WUA

¹⁵ Similar to CWSNC, Aqua requested Commission approval to implement a consumption adjustment mechanism in its past two rate cases in Docket Nos. W-218, Subs 363 and 497.

1 implementation. The WUA would not zero out during future rate
2 cases like the water and sewer system improvement charges (WSIC
3 and SSIC), because like the CUT, there would be a continuous
4 tracking and accounting for usage and revenue variances.

5 Growth has been accounted for by focusing on the total usage of
6 each rate classification. The present, Company proposed, Public
7 Staff recommended, and Commission approved service commodity
8 revenues and the newly authorized rates resulting from a general
9 rate case are determined based on the pro forma test year usage.
10 The Company's reliance on an average monthly usage per customer
11 adds the additional and complicating variable of the number of
12 customers in the denominator. The average mitigates the short-term
13 revenue gains from customer growth that are known to exceed the
14 associated expenses and inflates the calculated usage and revenue
15 variance. For example, if average usage decreases but there is
16 enough customer growth to offset the expected shortfall in total
17 usage, then the Company would meet the authorized usage revenue
18 level. Under this scenario, the WUA revenue variance would be zero
19 and the Company's CAM revenue variance would be equal to the
20 average usage decrease multiplied by the usage rate and the
21 number of customers.

22 The Public Staff's proposed mechanism intentionally has no
23 threshold to protect customers from the Company potentially over

1 earning. Any potential threshold or allowable percentage of variance
2 that wasn't plus/minus would likely be opposed by the Company if it
3 wasn't financially protective for both the Company and customers.
4 The Public Staff's recommended WUA and SUA are less
5 complicated than the Company proposal, and the monthly reporting
6 requirements will allow for timely review and implementation, thus
7 reducing the time and effort concerns.

8 The practicably of implementing a consumption adjustment
9 mechanism in this proceeding is in question with the pending
10 rulemaking, however, it is at least partially comparable to the
11 WSIC/SSIC mechanism approved during the Company's general
12 rate case in Docket No. W-354, Sub 336. As part of the stipulation¹⁶
13 filed on January 10, 2014, in that case, the Company and Public Staff
14 agreed as follows:

15 17. The Parties acknowledge that the rulemaking
16 establishing the procedures for implementing the
17 Water System Improvement Charge ("WSIC") and
18 Sewer System Improvement Charge ("SSIC")
19 mechanism is pending before the Commission, and the
20 final rules on the WSIC / SSIC mechanism have not yet
21 been approved. The Parties agree that approval of the
22 WSIC / SSIC mechanism in this proceeding and the
23 WSIC / SSIC Rulemaking should be coordinated, and,
24 therefore, recommend that this docket be held open, or
25 that the Commission adopt an alternative procedure in
26 this docket, so that the Company can make the
27 requisite filings and qualify for implementation of the

¹⁶ <https://starw1.ncuc.net/NCUC/ViewFile.aspx?Id=6441d7a6-c16b-46db-aa72-5d26ae3a3389>

1 system improvement charges under the rules adopted
2 by the Commission without having to make an
3 additional rate filing. The Parties' agreement to support
4 holding the record open for the purpose of
5 implementing the WSIC / SSIC mechanism after final
6 rules have been approved is not intended to delay in
7 any way a decision by the Commission on the
8 ratemaking part of this case. Further, the Parties agree
9 that this docket is the appropriate forum for a decision
10 by the Commission on the Company's request to
11 implement a WSIC / SSIC mechanism.

12 The Public Staff strongly believes the approval of a consumption
13 adjustment mechanism should be combined with a reduction in the
14 rate of return on equity and rate design that more effectively
15 promotes conservation.

16 RATE DESIGN PRINCIPLES

17 **Q. WHAT IS THE PUBLIC STAFF'S POSITION ON RATE DESIGN?**

18 A. The Public Staff agrees with the Commission that there is a balance
19 to strike between achieving revenue sufficiency and stability to
20 ensure quality, reliability, and long-term viability for properly operated
21 and well-managed utilities while setting fair and reasonable rates that
22 effectively promote efficiency and conservation. Should the
23 Commission deny the Company's request to implement a
24 consumption adjustment mechanism, the Public Staff recommends
25 a service revenue ratio of 45:55 (base facilities charge:usage
26 charges) for Uniform Water and Treasure Cove/Bradfield
27 Farms/Fairfield Harbour residential customers, which is consistent
28 with the Public Staff's previous recommendations in CWSNC rate

1 cases and is similar to the stated target of 40:60 in the most recent
2 Aqua rate case.

3 On March 20, 2019, the Commission issued an *Order Establishing*
4 *Generic Proceeding and Requiring Comments* (Order) in Docket No.
5 W-100, Sub 59. The Order made the Public Staff, CWSNC, and
6 Aqua parties to the proceeding and required the parties to file initial
7 comments to include “a discussion of rate design proposals that may
8 better achieve revenue sufficiency and stability while also sending
9 appropriate efficiency and conservation signals to consumers.” The
10 Order specifically instructed the parties to address in their initial
11 comments (1) “specific objectives that could be achieved from
12 various types of rate structures (for example, but without limitation,
13 irrigation rates, seasonal rates, surcharges when supply is low or in
14 a drought situation, increasing block rates, multiple rate schedules,
15 etc.)”; (2) “the impact on customers’ monthly charges”; and (3) “the
16 anticipated impact on efficiency and conservation.” On May 22,
17 2019, the parties filed their initial comments and on June 19, 2019,
18 the parties filed their reply comments. The Public Staff incorporates
19 by reference into this testimony and requests the Commission take
20 judicial notice of these filings, specifically the Comments of the Public

1 Staff¹⁷ filed on May 22, 2019, and the Reply Comments of the Public
2 Staff¹⁸ filed on June 19, 2019. It is not my intent to be repetitive of
3 those comments, however, the content of those filings are applicable
4 to the subject matter at hand in this proceeding.

5 As described in its 2018 North Carolina Water & Wastewater Rates
6 Report¹⁹ (2018 Report), the EFC states “[a]nother way to measure
7 the strength of the conservation pricing signal of water rates is to
8 determine how much of a financial reward (decrease in water bill) a
9 customer will receive by lowering their water consumption from a
10 high volume (10,000 gallons) to an average level (5,000 gallons).”²⁰
11 The EFC states that some utilities “reward customers substantially in
12 terms of bill reduction percentage for cutting back (e.g., nearly
13 halving the bill when customers halve their consumption) whereas
14 other utilities provide relatively little incentive (e.g., only a 30 percent

¹⁷ <https://starw1.ncuc.net/NCUC/ViewFile.aspx?Id=39673075-28db-4564-a916-322180eee462>

¹⁸ <https://starw1.ncuc.net/NCUC/ViewFile.aspx?Id=b5079c74-66a2-4ecb-b5d5-51ad570eb051>

¹⁹ UNC School of Government Environmental Finance Center and North Carolina League of Municipalities. (2018). *2018 North Carolina Water & Wastewater Rates Report*, page 17.

https://efc.sog.unc.edu/sites/default/files/2018/NCLM_EFC_Annual_Rates_Report_2018.pdf

The document is an appendix to the Comments of the Public Staff filed on May 22, 2019, in Docket No. W-100, Sub 59.

²⁰ *Id.* at p 20.

1 reduction in bill).²¹ For CWSNC, the present Uniform Water rate
 2 structure provides relatively little incentive, a bill reduction of 36.0%,
 3 for customers to significantly reduce their usage by 50%. The middle
 4 80% of EFC surveyed North Carolina water utilities utilizing a uniform
 5 rate provide a bill reduction ranging between approximately 32% and
 6 48% and the median bill reduction is 40%.²²

7 If Uniform Water residential rates had been implemented at the 45:55
 8 ratio in the Sub 360 rate case utilizing the billing data and average
 9 monthly usage per customer from that proceeding, then the bill
 10 reduction percentage would have increased from 36.0% to 38.8% as
 11 illustrated in the table below.

12 Junis Table No. 1

CWSNC W-354, Sub 360	52:48	45:55
Water Base facility charge	\$27.53	\$23.98
Uniform usage charge, per 1,000 gallons	\$7.08	\$8.31
Bill amount, 10,000 gallons	\$98.33	\$107.08
Bill amount, 5,000 gallons	\$62.93	\$65.53
Bill reduction percentage	36.0%	38.8%

²¹ *Id.* at pp 20-21.

²² *Id.* at p 21.

1 A lower base facility charge reduces the cost burden on customers
 2 for access to utility service before the use of any service. It allows
 3 customers to have greater control over their total bill by changing
 4 their usage through conservation and improved efficiency.

5 The rate design ratio of 45:55, as discussed above, has been
 6 implemented by Public Staff Engineer Gina Casselberry in her
 7 testimony and exhibits detailing the Public Staff's billing analysis and
 8 proposed rates.

9 In comparing the Company's proposed rates and the Public Staff's
 10 recommended rates, the bill reduction percentages are 37.4% and
 11 38.9%, respectively, as illustrated in the table below.

12 Junis Table No. 2

CWSNC W-354, Sub 364	Company Proposed	PS Recommended
Water Base facility charge	\$29.81	\$24.52
Uniform usage charge, per 1,000 gallons	\$8.82	\$8.56
Bill amount, 10,000 gallons	\$118.01	\$110.12
Bill amount, 5,000 gallons	\$73.91	\$67.32
Bill reduction percentage	37.4%	38.9%

13 Base facilities charges are a frequently discussed and highly
 14 controversial issue in electric, natural gas, water, and wastewater

1 rate cases. There are advantages and disadvantages to the different
2 base to usage ratios for the Company, rate groups, and individual
3 customers. During my career, electric and natural gas residential
4 base facilities charges have remained fairly low in the \$10 to \$15
5 range while water base charges have continued to increase and
6 wastewater rates have historically been a flat rate or been a very high
7 percentage of the average residential bill.

8 If water and wastewater rates were set as the Companies would like,
9 the rates would be almost flat to guarantee revenues. On pages 10
10 and 11 of the Joint Comments by Aqua and CWSNC²³, the
11 Companies stated the following:

12 From a purely financial perspective, a water utility may
13 be best served by a flat-rate water charge, but the
14 Companies acknowledge the danger such a message
15 would send from a conservation perspective and
16 emphatically do not endorse such a structure. Any shift
17 to more fixed fees will lessen the revenue gap caused
18 by further conservation efforts, but as long as there is
19 any commodity charge, utilities incur some risk of
20 under-recovery attributable to declining consumption
21 and seasonal usage fluctuations. As such, the
22 Companies recommended that any future rate design
23 utilize a representative ratio of fixed (and semi-fixed)
24 costs versus variable costs to determine the base
25 facility charge and volumetric components.

26 Both flat rates and metered rates with moderate to high base facilities
27 charges do not properly balance revenue sufficiency and stability

²³ <https://starw1.ncuc.net/NCUC/ViewFile.aspx?Id=f0ef1134-a320-4a8a-a02f-5cfc523797a1>

1 with the promotion of efficiency and conservation. A strict straight
2 fixed/variable rate design matching fixed costs to the base facilities
3 charge disassociates the customer level cost of service burden
4 generated by high users. **Flat rates or low volumetric rates**
5 **promote discretionary usage and wasteful practices.** Under the
6 current regulatory construct, the Companies profit on increasing
7 usage between rate cases and earn an authorized return on capital
8 investment. Increased usage is also an increase in demand that may
9 accelerate and/or necessitate the costly expansion of existing plant
10 capacity or filtration on formerly offline wells. Discretionary usage
11 and wasteful usage can also cause service issues like air in the
12 water, poor water quality, low pressure, and outages.

13 With metered rates, the price signals can be accentuated when
14 ratepayers are both water and wastewater customers. Presently, the
15 Uniform Water and Treasure Cove/Bradfield Farms/Fairfield Harbour
16 rates are a 52:48 ratio and the Uniform Sewer rate is an 80:20.
17 Bradfield Farms/Fairfield Harbour sewer rate is flat rate. If Uniform
18 Sewer residential rates had been implemented at the 45:55 ratio in
19 the Sub 360 rate case utilizing the billing data and average monthly
20 usage per customer from that proceeding, the bill reduction
21 percentage would have increased from 21.9% to 39.9% as illustrated
22 in the table below.

1 Junis Table No. 4

CWSNC W-354, Sub 360	80:20	45:55
Sewer Base facility charge	\$46.31	\$25.99
Uniform usage charge, per 1,000 gallons	\$3.62	\$10.29
Bill amount, 10,000 gallons	\$82.51	\$128.89
Bill amount, 5,000 gallons	\$64.41	\$77.44
Bill reduction percentage	21.9%	39.9%

2 A price signal measure can simply be the cost of the next 1,000
3 gallons. In Junis Table No. 4 above, the next 1,000 gallons at a rate
4 of \$10.29 (hypothetical 45:55 ratio) is 284% more costly than the
5 present sewer usage rate while the base facilities charge is 44% less
6 costly. It is noteworthy that in the Sub 336 rate case, the Public Staff
7 recommended and the Company stipulated to wastewater rates
8 designed with a 33:67 ratio.²⁴ The rate structure shift from 80:20 to
9 45:55 would be anticipated to result in significant rate shock for
10 customers. While the average bill remains nearly the same, low
11 users' bills would decrease and high users' bills would increase. As
12 a means of mitigating rate shock while still progressing toward an

²⁴ The rate structure was reconsidered and changed to a 74:26 ratio as part of the correction to the Uniform Sewer rate design error.

1 effective price signal, the Public Staff recommends an incremental
 2 approach to a 65:35 ratio for Uniform Sewer residential customers.
 3 In comparing the Company's proposed rates and the Public Staff's
 4 recommended rates, the bill reduction percentages are 24.6% and
 5 31.2%, respectively, as illustrated in the table below.

6 Junis Table No. 5

CWSNC W-354, Sub 364	Company Proposed	PS Recommended
Sewer Base facility charge	\$59.67	\$47.84
Uniform usage charge, per 1,000 gallons	\$5.80	\$7.95
Bill amount, 10,000 gallons	\$117.67	\$127.34
Bill amount, 5,000 gallons	\$88.67	\$87.59
Bill reduction percentage	24.6%	31.2%

7 ALTERNATIVE RECOMMENDATION

8 Should the Commission find the concept of a consumption
 9 adjustment mechanism to be in the public interest, the Public Staff
 10 recommends the Commission approve the implementation of a
 11 30:70 ratio target for Uniform Water and Treasure Cove/Bradfield
 12 Farms/Fairfield Harbour residential customers as part of rate design
 13 contemporaneously with the proposed WUA and SUA.

1 If Uniform Water residential rates had been implemented at the 30:70
 2 ratio in CWSNC's Sub 360 rate case utilizing the billing data and
 3 average monthly usage per customer from that proceeding, the bill
 4 reduction percentage would have increased from 36.0% to 43.4% as
 5 illustrated in the table below.

6 Junis Table No. 6

CWSNC W-354, Sub 360	52:48	30:70
Water Base facility charge	\$27.53	\$16.52
Uniform usage charge, per 1,000 gallons	\$7.08	\$10.90
Bill amount, 10,000 gallons	\$98.33	\$125.52
Bill amount, 5,000 gallons	\$62.93	\$71.02
Bill reduction percentage	36.0%	43.4%

7 In Junis Table No. 6 above, the next 1,000 gallons at a rate of \$10.90
 8 (hypothetical 30:70 ratio) is 154% more costly than the present water
 9 usage rate while the base facilities charge is 40% less costly.

10 The same facts support the 30:70 ratio as they did the 45:55 ratio,
 11 and the further reduction of the base facilities charge to 30% is
 12 justified by the revenue stability that can be provided by the Public
 13 Staff's consumption adjustment mechanisms. The 30:70 ratio paired
 14 with the WUA better achieves revenue stability while also sending

1 appropriate efficiency and conservation signals to consumers. The
 2 former risk posed by a decrease in usage to revenue stability is
 3 mitigated by the annual comparison to the authorized usage revenue
 4 level and, if necessary, the implementation of an increment. The
 5 reverse is also true, protecting ratepayers from being overcharged
 6 and the Company overearning.

7 The rate design ratio of 30:70, as discussed above, has been
 8 implemented by Public Staff Engineer Gina Casselberry in her
 9 testimony and exhibits detailing the Public Staff's billing analysis and
 10 proposed rates.

11 In comparing the Company's proposed rates and the Public Staff's
 12 recommended rates, the bill reduction percentages are 37.4% and
 13 43.5%, respectively, as illustrated in the table below.

14 Junis Table No. 7

CWSNC W-354, Sub 364	Company Proposed	PS Recommended
Water Base facility charge	\$29.81	\$16.92
Uniform usage charge, per 1,000 gallons	\$8.82	\$11.26
Bill amount, 10,000 gallons	\$118.01	\$129.52
Bill amount, 5,000 gallons	\$73.91	\$73.22
Bill reduction percentage	37.4%	43.5%

1 The sewer base facilities charge should also be reduced to send a
 2 better price signal to promote efficiency and conservation. If Uniform
 3 Sewer residential rates had been implemented at the 30:70 ratio in
 4 the Sub 360 rate case utilizing the billing data and average monthly
 5 usage per customer from that proceeding, then the bill reduction
 6 percentage would have increased from 21.9% to 44.2% as illustrated
 7 in the table below.

8 Junis Table No. 8

CWSNC W-354, Sub 360	80:20	30:70
Sewer Base facility charge	\$46.31	\$17.38
Uniform usage charge, per 1,000 gallons	\$3.62	\$13.12
Bill amount, 10,000 gallons	\$82.51	\$148.58
Bill amount, 5,000 gallons	\$64.41	\$82.98
Bill reduction percentage	21.9%	44.2%

9 In Junis Table No. 8 above, the next 1,000 gallons at a rate of \$13.12
 10 (hypothetical 30:70 ratio) is 362% more costly than the present sewer
 11 usage rate while the base facilities charge is 62% less costly. The
 12 rate structure shift from 80:20 to 30:70 would be anticipated to result
 13 in significant rate shock for customers. As a means of mitigating rate
 14 shock while still progressing toward an effective price signal, the

1 Public Staff recommends an incremental approach to 55:45 for
2 Uniform Sewer residential customers.

3 In comparing the Company's proposed rates and the Public Staff's
4 recommended rates, the bill reduction percentages are 24.6% and
5 35.8%, respectively, as illustrated in the table below.

6 Junis Table No. 9

CWSNC W-354, Sub 364	Company Proposed	PS Recommended
Sewer Base facility charge	\$59.67	\$40.62
Uniform usage charge, per 1,000 gallons	\$5.80	\$10.27
Bill amount, 10,000 gallons	\$117.67	\$143.32
Bill amount, 5,000 gallons	\$88.67	\$91.97
Bill reduction percentage	24.6%	35.8%

7 The Public Staff will consider and recommend other rate designs,
8 including the ones discussed in Docket No. W-100, Sub 59, in future
9 rate cases. The Public Staff's rate design recommendations in this
10 proceeding are a step toward better achieving a balance between
11 revenue sufficiency and stability with price signals to promote
12 efficiency and conservation. The guiding principle of "just and
13 reasonable rates and service" remains at the forefront of the Public
14 Staff's investigation.

1 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

2 A. Yes, it does.

Appendix A

Charles M. Junis

I graduated from North Carolina State University in 2011, earning a Bachelor of Science Degree in Civil Engineering. I have 8 years of engineering experience, and since joining the Public Staff in April 2013, have worked on utility rate case proceedings, new franchise and transfer applications, emergency operations, customer complaints, and other aspects of utility regulation. Prior to joining the Public Staff, I worked for Farnsworth Group, an engineering and architectural consulting firm. I am a licensed Professional Engineer in North Carolina.

1 Q Mr. Junis, on September 20th, 2019, the Public
2 Staff filed comments in Docket Number W-354, Sub 365.

3 Did you contribute to those comments?

4 A Yes, I did.

5 Q If you were asked questions pertaining to
6 portions of the comments to which you contributed, would
7 you be able to answer?

8 A Yes, I would.

9 Q Thank you.

10 MS. HOLT: Mr. Henry and Mr. Junis are
11 available for cross examination.

12 MR. ALLEN: Commissioner Brown-Bland, I have a
13 few questions, if I may.

14 COMMISSIONER BROWN-BLAND: All right. Mr.
15 Allen.

16 CROSS EXAMINATION BY MR. ALLEN:

17 Q Good morning, Mr. Junis. My name is Brady
18 Allen. I'm an attorney for the Corolla Light Community
19 Association. I just have a few quick questions. In your
20 direct testimony you discuss The Point pilot program, and
21 I understand that the program was withdrawn by the
22 Company, but in your discussion you list a couple of
23 concerns that the Public Staff had with the program,
24 five, in fact. And I just want to point to the third

1 concern that you listed is that it reverts ratemaking
2 back to system-specific rates, as opposed to Uniform; is
3 that correct?

4 A That's correct. That's on page 4.

5 MR. ALLEN: No further questions.

6 COMMISSIONER BROWN-BLAND: Does the Company
7 have cross?

8 MR. BENNINK: Yes.

9 CROSS EXAMINATION BY MR. BENNINK:

10 Q Good morning. Questions, at least initially,
11 will be primarily for Mr. Henry. They're of an
12 accounting nature. Mr. Henry, looking just preliminarily
13 at your summary, where you talked about the fact that the
14 Public Staff has recommended against deferral accounting
15 for treatment of AMR meters, I think you say in your
16 comments that -- you say that Carolina Water Service has
17 failed to make a clear, complete, and convincing showing
18 that the cost of the meters are of an unusual,
19 extraordinary nature, and that absent deferral will have
20 a material impact on the Company's financial position; is
21 that correct?

22 A (Henry) That is correct.

23 Q And that is, briefly, a restatement of the test
24 that the Commission has normally applied in deferral

1 cases, is it not?

2 A Yes.

3 Q Now, one word that is in there, and I'm asking
4 -- I'll ask you the significance of it, is you said that
5 the Company has failed to make a clear, complete, and
6 convincing showing. The language that I have seen in the
7 past is clear and convincing. Is that word "complete" in
8 there for a purpose or does it appear in any other
9 Commission Order that you're aware of?

10 A I did take that language from a Commission
11 Order, yes.

12 Q Can you cite me to that Order?

13 COMMISSIONER BROWN-BLAND: Mr. Henry, be sure
14 you pull the mic up close.

15 A Docket Number E-7, Sub 874.

16 Q All right. Thank you. And your summary does
17 indicate that although you do agree that the two
18 wastewater treatment plants should be allowed deferral
19 accounting, the recommendation and the -- which the
20 Company has agreed with, is that those costs, deferral
21 costs, would be amortized over a period of five years,
22 correct?

23 A Yes, for the two wastewater treatment plants.

24 Q And that no unamortized balance would be

1 included in rate base?

2 A That is correct.

3 Q What's the effect of not including the
4 unamortized balance in rate base?

5 A You wouldn't get a return on those.

6 Q And so it does -- it does indicate that during
7 the period of deferral, the Company is responsible for
8 whatever carrying cost may be incurred during that five-
9 year period; is that correct?

10 A Until those costs go into rates and the
11 Commission issues an Order, you would not be recovering
12 those costs in current rates.

13 Q That's right. And just touching briefly on the
14 storm reserve fund, we did -- the Company did agree to
15 withdraw its request for the storm reserve fund, but you
16 state in your summary that in lieu of that, we have
17 agreed to utilize the Public Staff's position. Now, tell
18 us -- tell the Commission and tell us what the Public
19 Staff's position was.

20 A Well, this was in Ms. Feasel's testimony. What
21 we did in that particular case was we looked at the storm
22 cost over the past 10 years and used an average as an
23 ongoing level of expense that the Company will incur from
24 this point on. In addition, we did not include Hurricane

1 Florence in that average because there was a separate
2 docket for that -- those particular costs, and we
3 amortized those costs over a five-year period. That's
4 the position we took on storm cost.

5 Q And the Company's position was for -- to use a
6 three-year average of the storm cost; is that correct?

7 A Correct. Out of 10-year average. It was
8 similar to what's done in the electric industry.

9 Q But the point is that there will be a line item
10 included in the cost of service -- even though they
11 didn't get so-called storm reserve fund, there is a line
12 item in to cover what you would call, you know, ongoing
13 storm reserve --

14 A Yeah.

15 Q -- damages.

16 A Normalized level.

17 Q Normalized -- at a normalized level.

18 A Yes.

19 Q Thank you. I had several questions, just given
20 the background for where we are today, but you did a good
21 job in your summary of giving an -- of telling the
22 Commission exactly where the settlement stands on these
23 issues. Again, just briefly, the Company is in agreement
24 with the Public Staff as to the deferral accounting

1 treatment that you have proposed for the two wastewater
2 treatment plants, correct?

3 A That is correct.

4 Q And in your statement you say that the -- well,
5 but we are in disagreement about whether the cost of the
6 AMR meters should be allowed deferral accounting
7 treatment?

8 A That's correct.

9 Q Now, in your summary you increase the Public
10 Staff's estimated impact of the cost of deferral for AMR
11 meters on the Company from 22 percent to 24, correct --
12 or 24 basis points -- basis points? Sorry.

13 A Yes. That was based on updated data -- updated
14 cost of the AMR meters we received from the Company on
15 October the 4th.

16 Q And so did that increase basis point effect on
17 the Company change your recommendation --

18 A No, it did not.

19 Q -- in any way? Now, I assume that you would
20 state that the Public Staff did conduct a thorough
21 accounting investigation of these four projects, correct?

22 A Yes, we did.

23 Q Can you please describe for the record the
24 nature of the Public Staff's accounting investigation of

1 both the wastewater treatment plant and AMR projects?

2 A We looked at the cost -- from an accounting
3 point we -- position we looked at cost. We looked at
4 invoices to determine whether the cost matched up to the
5 invoices. Ms. Casselberry looked to see whether those
6 projects were in service at the time -- at the particular
7 time that we are using for deferral accounting material.

8 Q And would you agree that the final cost for
9 each of the four projects were the following: \$7.63
10 million for the Connestee Falls wastewater treatment
11 project?

12 A I've got 7.1 million dollars in my -- on my
13 Revised Exhibit 1.

14 Q All right. But -- so your estimate is 7.1?

15 A Yes, sir.

16 Q How about -- what is your number for the Nags
17 Head wastewater treatment plant?

18 A \$6,876,116.

19 Q All right. I would have had 6.9 million, so --
20 how about the cost for the Fairfield Mountain AMR
21 project?

22 A I think we're in agreement on those two.

23 Q The 450,000 ballpark?

24 A Let me double check. For the Fairfield AMR

1 meters, \$449,560. That's before retirements. And for
2 Connetsee Falls, \$430,649 before retirements.

3 Q And all of these numbers that we're talking
4 about would be before retirements?

5 A Yes.

6 Q Now, your accounting investigation,
7 particularly on these issues and all the other ratemaking
8 issues, consisted of numerous data requests, didn't it?

9 A Yes, it did.

10 Q Have you got a total number of data requests
11 that you sent out?

12 A Not with me, no.

13 Q Just -- okay. That's fine. Did the Public
14 Staff's accounting investigation raise any prudence
15 issues with respect to the cost incurred by the Company
16 to complete each of these four projects?

17 A We did not. There were some estimated costs
18 that wasn't included that we took out. Other than that,
19 we did not have a problem with the actual cost of the
20 wastewater treatment plant or the AMR meters.

21 Q And the Company and the Public Staff are in
22 agreement on those rate base numbers or the numbers for
23 the case for each of those four projects; is that
24 correct?

1 A Yes. All the cost that we -- that you all gave
2 to us regarding those projects have been included in rate
3 base.

4 Q And we're in agreement on --

5 A Yes. We are in agreement.

6 Q -- the numbers that you used?

7 A Yes.

8 Q And would it be fair to say that the Public
9 Staff did not recommend at least any significant
10 disallowance of any part of these costs for ratemaking
11 purposes?

12 A No, we did not.

13 Q Now, what is the -- can you tell us generally
14 the dollar rate cost -- rate base cost for the two
15 wastewater treatment plants that would be included in the
16 Company's --

17 MR. GRANTMYRE: The cost?

18 MR. BENNINK: Yes.

19 Q The amount of rate base, that would be, I
20 guess, the numbers after --

21 A I don't have -- okay. For the Connestee Falls
22 wastewater treatment plant it was \$6,777,326, and for the
23 Nags Head wastewater treatment plant it would be
24 \$6,031,545.

1 Q So we're talking in the neighborhood of a rate
2 base investment for those two wastewater treatment plants
3 of about \$13 million; is that --

4 A \$12, 13 million --

5 Q \$12 to --

6 A -- somewhere in there.

7 Q -- 13 million; is that correct? And that's not
8 the amount that's being requested to be amortized as a
9 deferral -- cost of deferral, is it?

10 A No, it's not.

11 Q That's strictly just the rate base impact?

12 A Yes.

13 Q Now, in your summary I think you said that the
14 deferral cost for Connestee Falls would be about
15 \$520,000?

16 A That's correct. That's before amortization.

17 Q That's correct. And \$579,000 for Nags Head
18 wastewater treatment plant?

19 A That's correct.

20 Q And those costs would be amortized over five
21 years?

22 A Right.

23 Q Can you -- would that be, broadly, about --
24 would that be about \$200,000 per year amortization for

1 those?

2 A It would be \$104,029 for Connehee Falls
3 wastewater treatment plant and \$115,727 for the Nags Head
4 wastewater treatment plant. And those costs would be
5 covered from Uniform Sewer customers only.

6 Q And that's the annual defer --

7 A Yes.

8 Q -- deferral amounts?

9 A Yes.

10 Q And that is -- I just want to make sure the
11 record is clear. That's distinguished -- that is
12 completely different from the \$12 to 13 million total
13 investment that would be included in rate base?

14 A Yes. This only recognizes the cost -- the
15 carrying cost that you all would incur, but -- from the
16 time that the wastewater treatment plants are placed into
17 service until the time the Commission issues an Order in
18 this general rate case.

19 Q And deferral of the depreciation expense during
20 that --

21 A Depreciation and return on the rate base.

22 Q That's right. Okay. Talking about the rate
23 base investment for the AMR meters, as we said, you're
24 not recommending any disallowance of the Company's

1 investment in those meters, correct?

2 A That's correct.

3 Q And is it true that this is the third case in
4 which the Company has included cost for AMR meters for
5 its mountain systems?

6 A Yes.

7 Q And in either of the first two cases or this
8 case has the Public Staff raised any objections or
9 questions about the prudence of the installation or of
10 the cost of those AMR mountain meters?

11 A No, not to my knowledge.

12 Q Can you please describe your understanding of
13 the concept of a regulatory lag?

14 A That's the time frame in between the filing of
15 a rate case and the rates going into effect.

16 Q Is it fair to say that regulatory lag occurs
17 when reasonable and prudent cost level -- cost levels
18 increase between rate recovery periods?

19 A Yes. I'll agree to that.

20 Q And generally, is this caused by increases in
21 rate base due to investment in plant or due to cost
22 increases outpacing operating efficiencies gained?

23 A If cost having increased in between the rate
24 cases, then you will have a regulatory lag.

1 Q And is deferred accounting one way to address
2 the issue of mitigation of the effects of regulatory lag
3 on a utility such as Carolina Water Service?

4 A Yes, it is.

5 Q The Company's rate case application, and this
6 is at page 4, lines 14 through 17, states that since
7 recovery was last authorized in the Sub 360 rate case,
8 the Company made over \$22 million of capital investments
9 in its water and wastewater systems in North Carolina.
10 Would you accept that, subject to check?

11 A Yes, I would.

12 Q And doesn't a capital investment of that
13 magnitude for a company the size of Carolina Water
14 Service result in a significant degree of regulatory lag
15 which negatively affects the Company?

16 A It would --

17 Q Mr. Henry?

18 A It would affect your rate of return.

19 Q I mean, isn't \$22 million -- when -- I think
20 their last rate case was just decided in February of this
21 year, correct?

22 A That is correct.

23 Q And the \$22 million of additional capital cost
24 was incurred since the cutoff for capital investment in

1 the 360 case and this case, correct?

2 A Repeat the question. I'm sorry.

3 Q In the Sub 360 rate case we had a cutoff date
4 for purposes of additional investment by the Company, did
5 we not?

6 A Yes. There was a cutoff date.

7 Q And only projects that were completed in
8 service by that date were eligible?

9 A Yes, sir.

10 Q Now, if it's true that the Company invested an
11 additional \$22 million since that time, isn't that a
12 significant amount of investment of capital for a company
13 the size of Carolina Water Service?

14 A It is.

15 Q And wouldn't you expect that to result in a
16 significant degree of regulatory lag of cost recovery?

17 A There will be a regulatory lag.

18 Q So we've already agreed, based on your update
19 this morning, that the Company's request for approval of
20 AMR cost deferral, if it's denied, that the Company's
21 earnings will be negatively impacted by a factor of 24
22 basis points, correct?

23 A Yes. That's what I calculated.

24 Q And if that is, in fact, the truth of the case,

1 is it also true that that result is a clear demonstration
2 of the negative effects of a regulatory lag which could
3 be corrected and avoided by a Commission Order
4 authorizing deferral accounting?

5 A Well, in this particular case we're talking
6 about less than \$1 million in a cost that you are asking
7 for deferral accounting treatment. You're not asking for
8 \$22 million.

9 Q No, and I'm not trying to confuse that. I want
10 the record to be clear, the \$22 million is the rate base
11 investment. I mean, what we're talking about, according
12 to your summary -- did you quantify the amount in your
13 summary as to the amount that would be amortized for the
14 AMR meters?

15 A I have those numbers if you want them.

16 Q Can you provide them for us now?

17 A The -- when I did my calculations, I took the
18 AMR meters and put them in the rate case model that we --
19 the rate case model that the Commission approved in the
20 last general rate case, Sub 360. And when I did that,
21 the rate of return that was granted in the Sub 360 rate
22 case decreased from 7.65 -- 9.75 percent to 9.51 percent.
23 That's the 24 basis points decrease. Also, the overall
24 rate of return decreased from 7.75 percent to 7.63 --

1 7.63 percent, a .12 percent decrease or 12 basis points
2 there. That -- those decreases in the rate of return and
3 overall return on equity and the overall rate of return
4 equates to only \$16,596, which is only 1.35 percent of
5 your NOI that was approved in the last general rate case.

6 In addition, if you gross that amount up to
7 come up with the revenue impact, it's only \$21,688, which
8 is only .12 percent of the revenues the Commission
9 approved in the last general rate case. For those
10 reasons -- based on those financial calculations, that's
11 the reason behind our conclusion that the AMR meters
12 should not be given deferred accounting treatment.

13 Q I'll go back to my question because I didn't
14 hear an answer to it. The question is, what is the total
15 amount of deferral dollars being requested by the Company
16 in this case for AMR meters?

17 A It's in Mr. DeStefano's rebuttal testimony.

18 Q Can you tell me what it is?

19 A The total is \$51,106.

20 Q And that's for both installations, correct?

21 A Yeah, compared --

22 Q And that --

23 A And that's compared to my \$64,000. So my
24 deferral accounting is higher than his, if the Commission

1 were to grant it.

2 Q So if it were to be granted by the Commission,
3 the total dollar amount for the deferral would be \$64,000
4 amortized over five years; is that correct?

5 A That's correct. \$64,736, to be exact.

6 Q And, now, you may well disagree with the impact
7 of this. I mean, you're certainly -- your response wants
8 to minimize the impact of this, but in truth, it is a 24
9 basis point reduction to the Company's return on equity,
10 correct?

11 A That is correct, but you've got to also look at
12 the revenue impact and the dollar impact that this 24
13 basis points has on the Company.

14 Q Well, let me ask you, did you make any
15 accounting adjustments in this case that would be in that
16 same estimated range? Were they significant enough for
17 the Public Staff to question cost and make adjustments
18 that would be of that same magnitude?

19 A Most of the accounting adjustments were
20 prepared by Ms. Feasel, so --

21 Q Well, let me ask you this --

22 A -- I can review her --

23 Q I'm sorry.

24 A -- adjustments, but I can't give you any

1 specifics on that.

2 Q Well, let me just ask you a hypothetical.
3 Would the Public Staff routinely make an adjustment of
4 \$51,000 on, you know, any number of items in a rate case
5 if you thought it was justified?

6 A I would have to look at the circumstances
7 behind that adjustment.

8 Q But if you thought it was justified, you would
9 make it, you would suggest it, wouldn't you?

10 A Definitely.

11 Q And you wouldn't rule it out because it was
12 de minimis, would you?

13 A Could you repeat your question?

14 Q You would not rule out a \$51,000 adjustment in
15 a rate case because the Company claimed to you you
16 shouldn't make that because it's de minimis?

17 A (Junis) No, but that would be standard rate
18 case adjustments. This wouldn't be a special accounting
19 treatment.

20 Q Well --

21 A So like, let's say, chemicals. If I make a
22 \$50,000 adjustment, that is standard practice in a rate
23 case. That's part of our investigation and our
24 adjustments based on true cost or expected cost going

1 forward, while what you're talking about with an AMR
2 deferral is special accounting treatment outside of a
3 normal rate case.

4 Q Now, the 51 -- obviously, would you agree that
5 in this case, the adjustment or the request for the
6 \$51,000 is considered to be material by the Company?
7 Would you agree with that, Mr. Henry?

8 A (Henry) I would agree with that.

9 Q I mean, it has to be found to be material under
10 the Commission's test, doesn't it, to be allowed?

11 A There's several tests, not just --

12 Q But one prong of it is materiality.

13 A Yes, it is.

14 Q Yeah. We're not contesting -- you know, we've
15 already agreed what the Commission's test is. To me,
16 it's two-prong. There are two basic --

17 A Three.

18 Q -- parts to it.

19 A It's three-prong, not two.

20 Q What are the three prongs?

21 A Unusual and extraordinary, the effect that it
22 has on its ROE, and with the deferral accounting
23 prediction done in conjunction with a general rate case.

24 Q All right. Well, I --

1 A So --

2 Q Yeah.

3 A -- you meet one of them.

4 Q It meets how many of them?

5 A One of them.

6 Q And that's because it's done in a rate case?

7 A Correct.

8 Q But that's a significant -- and that has been a
9 distinguishing factor in some cases, hasn't it?
10 Certainly cited by the Commission in other Orders, that
11 part of the reason deferral accounting was appropriate
12 was because it was done at the time of a general rate
13 case.

14 A That is correct.

15 Q And from the Public Staff's perspective, isn't
16 -- if there is to be deferral accounting, isn't that the
17 best option for deferral accounting?

18 A I guess so.

19 Q Well, we've had -- I think there have been
20 electric cases where I think deferral accounting was
21 authorized, but the utility -- they didn't have a rate
22 case pending and they weren't projecting a rate case for
23 three years, and the Commission gave them a deadline and
24 said, you know, if you don't file by this time, here's

1 the action that has to be taken; isn't that correct?

2 A I'm not sure about the particular docket that
3 you're talking about in an electric case.

4 Q But at any rate, can we agree that if there is
5 a petition for deferral accounting, the best circumstance
6 is to have it filed in conjunction with a rate case?

7 A That's one of the Commission's criteria in
8 order for them to grant deferral accounting, potentially.

9 Q Well, I mean, I think that's a criterion, but
10 -- but, yeah, I'm sorry. I didn't mean to interrupt you.

11 A Go ahead.

12 Q I think that is a criteria, but I stand to be
13 wrong, but I think there have been cases where it's been
14 allowed when there wasn't a rate case.

15 A I'm not aware of any.

16 Q Going to the impact --

17 COMMISSIONER BROWN-BLAND: Mr. Bennink, do you
18 have a bit more to go?

19 MR. BENNINK: Yes, I do.

20 COMMISSIONER BROWN-BLAND: I think this is a
21 good time for us to take a break, and we'll come back on
22 the record at 11:30.

23 (Recess taken from 11:15 a.m. to 11:32 a.m.)

24 COMMISSIONER BROWN-BLAND: All right. We'll

1 come back on the record now. We're still in Mr.
2 Bennink's cross.

3 Q Mr. Henry, I wanted to go back and see if you
4 could tell the Commission what your final basis point
5 impact is for the two wastewater treatment plants. Do
6 you have that number --

7 A (Henry) I do.

8 Q -- available?

9 A On the return on common equity it's 4.34
10 percent, and on the overall rate of returns, 2.21
11 percent.

12 Q I'm a little bit confused because I know in the
13 Company's comments, it estimated the basis impact for the
14 wastewater treatment plants of being 167 basis points, so
15 you're saying it's actually more than that?

16 A Yes.

17 Q And give me that number again.

18 A For the return on common equity it's 4.34
19 percent, and on the overall rate of return it's 2.21
20 percent.

21 Q All right. So 4.34 percent equates to how many
22 basis points?

23 A 434 -- 434.

24 Q Okay. And we've agreed that you say your new

1 estimate for the AMR meters is 24 basis points.

2 A That's correct.

3 Q So that's a total impact here, on a combined
4 basis, of 458 basis points?

5 A Yes.

6 Q And so the evidence you gave before in terms of
7 the impact of the AMR meters did not consider the impact
8 of the wastewater treatment plants, correct?

9 A I didn't combine the cost to come up with the
10 impact. I did them individually.

11 Q All right. But on a combined basis you're
12 saying that the Company's allowed equity return would be
13 reduced by 4.58 percent?

14 A No. I'm saying you're saying that. I wouldn't
15 combine them to come up with our overall.

16 Q But hypothetically --

17 A That's --

18 Q -- if --

19 A That's --

20 Q I'm sorry.

21 A -- the way the math with that works out, but on
22 the -- we would have to look at them on an individual
23 basis and see what -- the effect that each has on the
24 Company's Uniform Water operations and Uniform Sewer

1 operations.

2 Q That's the Company's position?

3 A That's --

4 Q I mean, that's the Public Staff's position?

5 A Yes, it is.

6 Q The Company is maintaining, is it not, that
7 these costs are material and meet the Commission's test,
8 whether considered on a combined or individual basis,
9 correct?

10 A That's what's in Mr. DeStefano's testimony,
11 yes.

12 Q But, again, can we agree that if considered on
13 a consolidated basis, the total effect on the Company's
14 return on equity would be about 4.6 percent or 458 basis
15 points?

16 A I didn't consider them on a consolidated basis.
17 I looked at them individually.

18 Q I understand that. Are you aware that in
19 Deferral Orders issued by the Commission that the
20 Commission has pointed to the actual earned return on
21 equity, in particular, on the actual return on equity of
22 a utility requesting deferral accounting as a significant
23 consideration for authorizing the request?

24 A I've read that in some of the Orders.

1 Q And in this case, I mean, the Public Staff
2 agrees that the impact of the wastewater treatment plants
3 is material and meets that test, correct?

4 A Yes.

5 Q And are you aware of any cases in which the
6 Commission has based its authorization for deferral
7 accounting on both the consolidated and individual
8 request from the utility?

9 A Repeat your question again.

10 Q Are you aware of any cases in which the
11 Commission has based its decision on a deferral
12 accounting request on both the consolidated and
13 individual request from the Company where they might have
14 had two or more items?

15 A No. I'm not aware of that.

16 Q Is it true that neither wastewater treatment
17 plant replacement projects nor AMR meter projects are
18 eligible for cost recovery in WSIC/SSIC proceedings?

19 A I'll defer that to Mr. Junis.

20 A (Junis) That's correct. And I think that got
21 into the discussion about the WSIC and SSIC with Mr.
22 Mendenhall about in-kind replacements. It's very clear
23 in the general statute that it says in-kind.

24 Q Wouldn't that fact be a valid consideration for

1 the Commission in making a decision regarding the
2 Company's AMR deferral request?

3 A I mean, I think it's certainly worth
4 considering, but I don't think it should be a major
5 factor. I mean, the WSIC and SSIC was, again, a special
6 treatment to allow specific eligible projects to get
7 recovery between rate cases. And then you're talking
8 about a deferral, which is special treatment, which is
9 typically filed in conjunction with the rate case.

10 And you have failed to address the other prong,
11 I think, in your line of questioning. You were very
12 specific on materiality, while not getting to the
13 question of unusual or extraordinary. And this is a --
14 it is a business choice by the Company to go to AMR.
15 They could have done traditional meters. And, also,
16 meter replacement, it should be a part of normal
17 business, but counter to that, before the Sub 344 rate
18 case, the Company doesn't appear to really have a meter
19 replacement program. It was just onesies and twosies, if
20 it breaks, then we replace it, and there was no
21 incremental scheduled program of replacing out aged
22 meters, which a responsible utility would do.

23 And so now you've reached a point, based on the
24 Company's decisions, that they've made a choice to, en

1 masse, replace meters and replace them with AMR
2 technology. And so you've almost created this illusion
3 that it is not -- that it is unusual, but it's not.
4 Meter replacement is normal course of business.
5 Replacement of wastewater treatment plants is not a
6 typical thing that happens frequently. Meter -- the
7 replacement of wastewater treatment plants may happen
8 once every 30 years. Those are not infrastructure that
9 frequently gets replaced, and I think that would be
10 comparable to generating plant on the electric side, and
11 that's where a lot of these deferrals stem from.

12 Q Now, what's the lifetime -- you know, the
13 expected lifetime of a meter?

14 A So the expected life on a meter, depending on
15 -- there's a number of factors, water quality, the type
16 of meter, is it a positive displacement, is it an
17 electromagnetic. You're seeing a lot of the large
18 municipalities, their programs are typically 10 to 20
19 years. With the AMR and AMI, you have battery life
20 factoring into it, and then does it become cost
21 beneficial to replace the meter due to decreased accuracy
22 and a failed battery or is it appropriate to just replace
23 the battery. But if you're talking about the
24 depreciation, and Mr. Henry can correct me, but I believe

1 Carolina Water is currently depreciating meter
2 infrastructure over 30 years, but that includes piping,
3 appurtenances, meter box, yolk, so there's a number of
4 things that go into that that has kind of exaggerated
5 that life.

6 Q But 20 or 30 years is -- you know, if you have
7 a replacement program, that is consistent?

8 A Twenty (20) to 30 years, I don't think it would
9 be a typical or a responsible replacement program. At
10 that point the meter and accuracy -- I mean, this plays
11 to some of the problems that the Company has identified.
12 You talk about decreasing consumption on average
13 customers. Well, is that a by-product of customers using
14 less or is that a by-product of meters reading less
15 accurately, because that zero read is dragging down the
16 average. So responsible meter replacement can actually
17 help address some of the concerns the Company has.

18 Q Has the Public Staff objected to the Company's
19 mountain meter replacement program with AMR meters?

20 A No, sir.

21 Q I mean, it's been considered in three cases and
22 you've not raised a question about it, have you?

23 A That's correct.

24 Q And my question initially, Mr. Junis, was isn't

1 it a valid consideration for the Commission in making a
2 decision regarding the Company's AMR deferral request?

3 And it says a valid consideration. That's a valid
4 consideration, isn't it?

5 A I said it certainly can be part of the
6 consideration. I don't think it should be a big piece of
7 that consideration. The idea of just because you don't
8 have it in WSIC means you should get a deferral, I don't
9 think that's appropriate.

10 Q Well, isn't the WSIC/SSIC statute and the
11 concept of deferral accounting, aren't they both designed
12 to mitigate the effects of regulatory lag on the utility?

13 A I think it's intended to -- the WSIC/SSIC was
14 at least framed to me to promote good behavior by the
15 utilities, to invest in --

16 Q And we would agree --

17 A -- infrastructure that they typically had
18 delayed in the past. The perfect example is secondary
19 water quality. That was an issue that had previously
20 been left unaddressed, customers consistently came to
21 hearings and complained about it and nothing was done,
22 but then when you're given an incentive, which I think
23 the WSIC is, then all of the sudden the utilities started
24 to address those problems.

1 Q But the incentive is that there is really -- at
2 least it does minimize regulatory lag for cost recovery
3 purposes?

4 A That's correct. I think it's appropriate to
5 address the definition of regulatory lag. I think it
6 actually is -- you referred to it as the time period
7 between rate cases. I think it's actually the time
8 period that the regulator actually has -- takes to
9 process it. So from the date you file the rate case to
10 the date your rates go into effect, that's regulatory
11 lag. That allows the Public Staff to do its
12 investigation. That gives the Commission time to hear
13 both -- all sides of the case, and I believe that is
14 regulatory lag.

15 The Company decides when it files rates cases,
16 and so it can file a rate case -- I guess the Company
17 could file tomorrow if they really wanted to, but -- so
18 you're pushing some of the time in between rate cases on
19 regulatory lag when it's not. It's actually up to the
20 Company. It's their management and their decisions.

21 Q And it is true, is it not, that AMR meters
22 don't -- do not meet, and particularly according to the
23 Public Staff's interpretation of the statute, the in-kind
24 criterion specified in the law?

1 A So I have the statute right in front of me, and
2 if you look at 62-133.12(c)(1), this says "For purposes
3 of this section, eligible water system improvements
4 means," and (c)(1) is "distribution system mains, valves,
5 utility service lines, including meter boxes and
6 appurtenances, meters, and hydrants installed as in-kind
7 replacements." And it is the Public Staff's
8 interpretation that in-kind means same or like kind. So
9 if it's a traditional meter, you replace with a
10 traditional meter, it would be eligible.

11 Also, I would say these meters that we're
12 talking about for AMR, if Connehee Falls, let's say 10
13 or 15 years down the road they replace those AMR meters
14 with AMR meters, that would be an in-kind replacement,
15 and because they are AMR or AMI compatible, I think you
16 can make the argument that you could replace an AMR with
17 an AMI and it would still fall under this interpretation
18 of in-kind.

19 Q The question was a simple yes or no. They're
20 not in-kind meters, are they, according to your
21 interpretation?

22 A That's correct.

23 Q Mr. Henry, are you familiar with the 2012 Duke
24 case in Docket Number E-7, Sub 999? It was -- involved

1 Buck and Bridgewater deferred accounting?

2 A (Henry) I may have read it. I'm not sure.

3 Q In that case the Commission stated that
4 "Ratepayers appear to be benefitting from the commercial
5 operations of Buck and Bridgewater and, consequently,
6 should be required to bear the reasonable and prudently
7 incurred net cost associated with the providing of those
8 benefits." As a general rule, would you agree that
9 that's a reasonable statement?

10 A (Junis) So --

11 Q The question was to Mr. Henry.

12 A And I believe we're a panel and I can answer
13 that question, but if the Commission would like to weigh
14 in on your concerns, I'm happy to oblige.

15 MR. JUNIS: Is it okay if I answer the
16 question?

17 COMMISSIONER BROWN-BLAND: Go ahead and answer
18 the question.

19 MR. JUNIS: Thank you.

20 COMMISSIONER BROWN-BLAND: And if Mr. Henry
21 wants to weigh in, he may.

22 MR. JUNIS: It's deferral accounting and he
23 deferred to me, so I think it's appropriate.

24 A In that Sub 999 case, you're talking about

1 generating plant additions, which is the prompting of
2 deferral accounting. And I think the comparable project
3 in the water and wastewater industry would be either in
4 new source water or treatment or wastewater treatment
5 plants. And so, again, the wastewater treatment plants
6 fall into, and why we agree to deferral accounting, the
7 weight from AMR meters, that is not providing service to
8 customers or improving service to customers.

9 Q You're saying that the AMR meters, once they're
10 installed and in service, are not providing any benefits
11 to customers?

12 A I would say they are not integral to providing
13 service. New generation or wastewater treatment is
14 integral to providing quality service. I do not believe
15 those meters are.

16 Q Well, suppose the meters that were replaced
17 were -- you know, you've made the case they're old, they
18 get inaccurate, you know, they need to be replaced.

19 A To the benefit of the Company.

20 Q Not to the benefit of the customers if they are
21 inaccurate?

22 A So if you look at the cost benefit here, there
23 is a cost to customers, and so there are intangible
24 benefits to any project, but in terms of cost breakdown,

1 and that's what your focus was, was materiality of cost,
2 customers are paying additional cost for these meters.

3 Q And isn't that generally the case with any new
4 technology?

5 A There are cost savings. Some of your examples
6 of cases where Duke got deferral they saw significant
7 reductions in fuel costs that were either captured before
8 deferral accounting treatment or as part of deferral
9 accounting treatment.

10 Q Mr. Henry, weren't there cost savings included
11 in this case in terms of contract meter reading cost?

12 A (Henry) No.

13 Q Weren't they removed?

14 A No, not to my knowledge.

15 Q I would ask you --

16 A I --

17 Q -- to check on that. I believe that --

18 A I didn't remove any cost related to any cost
19 savings in my calculations.

20 Q Well, it's my understanding that there was, I'm
21 going to say, \$21,000 removed from the cost of service by
22 the -- can I finish?

23 A (Junis) Okay. So -- I'll let you finish the
24 question.

1 Q Let me finish my question.

2 COMMISSIONER BROWN-BLAND: Let him finish his
3 question.

4 MR. JUNIS: Oh, sorry. I thought he had.

5 COMMISSIONER BROWN-BLAND: Mr. Bennink?

6 Q My understanding, that there was \$21,000 of
7 contract cost for meter reading for these two mountain
8 systems that was removed from the cost of service in this
9 case. Can you confirm that, Mr. Henry?

10 A (Henry) Not at the moment, I cannot.

11 A (Junis) Subject to check, I believe I saw
12 testimony that there was a reduction in the expense, but
13 it is far outweighed by the cost here of just the
14 deferral treatment in this case.

15 Q In the Duke Sub 990 case the Commission stated
16 "The costs in question are material," and I'm going to
17 emphasize this, "particularly in the aggregate, and
18 absent deferral would have a materially adverse impact on
19 Duke's earnings for fiscal year 2012." The Commission
20 then set forth a table in its Order of the four separate
21 negative ROE impacts on Duke, as quantified by the Public
22 Staff, and they consisted of for Buck Deferral 1, 12
23 basis points; Bridgewater Deferral 1, 3 basis points;
24 Buck Deferral 2, 12 basis points; Bridgewater Deferral 2,

1 2 basis points, a total deferral amount of 29 basis point
2 impact. Now, isn't that analogous to Carolina Water
3 Service's request for AMR deferral accounting in this
4 case when the impact is 24 percent? And that's just on
5 AMR impact. The significance of the Duke Sub 99 case is
6 the Commission said "particularly in the aggregate."

7 A All right. Did you say Sub 999 or Sub 90 --
8 990?

9 Q My note says 999.

10 A 999. And that is addressed in the Company's
11 reply comments; is that correct? You're talking about
12 Buck, Bridgewater?

13 Q Yes. Buck, Bridgewater.

14 A Okay. And you listed off, is it correct, that
15 just those two projects, the 24 basis points and the 5
16 basis points?

17 Q It's -- it totals 29.

18 A Okay. And do you have happen to have the total
19 dollar amount that is quantified from those basis points?

20 Q 28.3 million. Mr. Henry, would you say that
21 this -- you know, that's analogous to this case --

22 A (Henry) No.

23 Q -- in terms of the basis point impact?

24 A No, I wouldn't.

1 Q So 29 basis points is significantly different
2 than a 24 basis point?

3 A Depending on the cost of the project. I'm sure
4 Duke was talking about multi-million dollar projects.
5 Here with Carolina Water on the AMR meters you're talking
6 about less than \$1 million project.

7 Q Well, my notes indicate that the deferral
8 amount in this case was a little over \$28 million. Now,
9 if a company the size of Duke Energy --

10 A That's the deferral piece --

11 Q That's right, but --

12 A -- the cost of those projects --

13 COMMISSIONER BROWN-BLAND: You guys, I let it
14 go a minute ago, but --

15 MR. BENNINK: I'm sorry. Yeah. I understand.

16 COMMISSIONER BROWN-BLAND: -- help the court
17 reporter out by not being on top of each other. That's
18 all. Go ahead, Mr. Henry. You were answering.

19 A If the deferral piece is \$28 million, then the
20 cost of those projects from which those deferral costs
21 were generated has to be in the hundreds -- maybe close
22 to \$1 billion in cost.

23 Q Well, now --

24 A Significantly less than --

1 Q I'm sorry.

2 A -- what you're asking for here for the AMR
3 meters.

4 Q In the Buck/Bridgewater case, is it not true
5 that that Public Staff opposed that deferral and said it
6 was -- it was, you know, probably the same position
7 you're taking here?

8 A I don't know. I --

9 Q That the basis point impact --

10 A -- I'm not familiar with that particular docket
11 in that sense, what the Public Staff opposed in that
12 case.

13 Q But anyway, would you accept, subject to check,
14 that the Commission said in that Order that the costs in
15 question are material, particularly in aggregate, and
16 absent deferral would have a material adverse --
17 materially adverse impact on Duke's earnings for fiscal
18 year 2012?

19 A I accept that, subject to check.

20 Q And are you aware that in that same case Duke
21 was allowed deferral accounting for the cost in question,
22 even though the Company earned a return on equity of 9.74
23 percent for the 12-month period ending March 31st, 2012?

24 A No. I'm not aware of that.

1 Q And have you seen testimony filed by the
2 Company in this case that during the test year, its
3 earned return on equity was 1.63 percent?

4 A I have not seen that number anywhere in
5 testimony.

6 Q Would you accept that, subject to check, Mr.
7 Henry? Mr. Henry?

8 A (Junis) I think, again, it's appropriate for me
9 to answer, but --

10 COMMISSIONER BROWN-BLAND: Wait a minute. If
11 he -- if Mr. Henry can answer --

12 WITNESS JUNIS: Okay.

13 COMMISSIONER BROWN-BLAND: -- and then you can
14 weigh in.

15 A (Henry) I would have to know where that number
16 comes from. I can't accept it, subject to check, until I
17 see how that number was calculated.

18 Q And I think you may have done some discovery on
19 that and there was a -- there was a response about test
20 year impact or earnings.

21 A Yeah. I'm familiar with the test year, not
22 the --

23 Q This is test year that I'm talking about,
24 during the test year.

1 A The test year amount that Mr. DeStefano put in
2 his rebuttal testimony is 3.69 percent, but that's total
3 Company. That is where he went in and add up all the
4 returns for each individual rate division, to come up
5 with that 3.69 percent.

6 Q But let's say --

7 A All -- excuse me. All four rate divisions.
8 Excuse me.

9 Q And I do apologize. I'm not trying to
10 interrupt you.

11 COMMISSIONER BROWN-BLAND: Mr. Junis, did you
12 need to complete the answer?

13 A (Junis) Yeah. I just wanted to added some
14 context to that number. When you're looking at the test
15 period, the Company got new rates in mid-February of this
16 year, and so the test period only includes a month and a
17 half of new rates. And so you filed the rate case to
18 address under-earning, potentially. I mean, that's
19 usually the main purpose. And then you're trying to look
20 at a window to look back at, again, suggesting you're
21 under-earning, but that's under old rates when you had
22 made plant additions in the previous rate case and to be
23 recovered in this rate case. So you're like doubling up
24 on the negative impact of your investment. So I don't

1 think that's a proper window to look at when considering
2 are they under-earning or over-earning.

3 Q Well, obviously, the Company would
4 disagree with you there. The test year is the test year,
5 and it reflects whatever the Company's actual earnings
6 situation was at that point in time. Would you agree
7 with that?

8 A During that period of time, but you're not even
9 including a full year of the new present rates. I mean,
10 you're looking back at 10-1/2 months of previous rate
11 case, not the most recent, but the rate case before that
12 rate's in place.

13 Q Mr. Henry, how much of a rate increase is
14 Public Staff recommending in this case?

15 A (Henry) It's in Ms. Feasel's Revised Exhibit 2.

16 Q I don't have that in front of me, but --

17 A I don't, either.

18 Q -- it is, I want to say, somewhere around \$4.4
19 million?

20 A I'm not sure what the number is unless I see
21 it.

22 Q Is it over \$4 million?

23 A I don't know what the number is exactly.

24 COMMISSIONER BROWN-BLAND: Looks like Mr.

1 Henry --

2 Q Mr. Henry, would you --

3 COMMISSIONER BROWN-BLAND: It looks like Mr.
4 Henry found the exhibit.

5 A Of the \$6.8 million rate increase you asked
6 for, we've settled on a \$4.5 million rate increase. That
7 will change with the ROE that the Commission --

8 Q That's correct, but --

9 A -- orders in the deferred accounting treatment,
10 so those numbers will change.

11 Q But to Mr. Junis' point, if the Company, in
12 fact, earned during its test period 1.63 percent, and his
13 point is that that didn't include the rate increase that
14 was granted in the Sub 360 case, by and large, it's still
15 true that even with that, the Company is now going to get
16 a minimum of another \$4.5 million rate increase, correct?

17 A Based on our settlement schedules, yes.

18 Q Going back to the Sub 990 (sic) case where --

19 A (Junis) It's Sub 999, right?

20 Q Yeah. Is that --

21 A You said Sub 990.

22 Q I'm sorry.

23 A So it's confusing when I'm trying to look back
24 at how your --

1 Q Well, I think I'm -- Sub 99 (sic) --

2 MS. SANFORD: 9-9-9.

3 A Three 9's.

4 Q I'm sorry. I'm tired. Again, Duke was allowed
5 deferral accounting in that case, even though the Company
6 -- the evidence indicated and the Commission Order
7 indicated that Duke earned a return on equity of 9.74
8 percent for the 12-month period ended March 31st, 2012.

9 Mr. Henry, would you agree that Duke's earnings
10 were far higher than the numbers that the Company has put
11 forward that it earned during its test year?

12 A (Henry) That number that you were referencing
13 from the Duke case is higher than the numbers that you've
14 pointed out in this rate case.

15 Q Significantly higher, isn't it?

16 A They are higher.

17 Q In that same case, and I won't use the number
18 this time, the Commission further noted that Duke also
19 had significant capital needs and that allowing the
20 requested deferral would have a favorable impact on
21 Duke's earnings and financial standing in general and, as
22 such, would enhance the Company's ability to access and
23 obtain capital on more favorable terms, and that such
24 results would ultimately accrue to the benefit of the

1 Company's North Carolina retail customers and its
2 investors. It is true that in this case, is it not, Mr.
3 Henry, that the Company has included an additional \$22
4 million of capital investment in additional rate base in
5 this case; isn't that correct?

6 A That's what you keep mentioning in crossing me,
7 but the deferral accounting treatment is only for less
8 than \$1 million.

9 Q And in the E-7, Sub 874 case, in the Deferral
10 Order in that case the Commission also stated that in
11 ruling on a deferral request, whether the utility has
12 requested a general rate increase, and the timing of such
13 a request is also pertinent for consideration as a
14 criterion to be used to make a decision. And I think
15 we've already agreed that the Company met that prong or
16 rationale in this case, correct?

17 A That is correct.

18 Q (Junis) So if I can add to his answer there,
19 just context on the Sub 874 case, the NC retail rate base
20 impact of the Allen scrubbers, which was quantified as 67
21 basis points, was \$48 million, and the 47 basis points
22 for Catawba Nuclear Station, that was \$34 million on an
23 NC retail basis, so those are huge investments. The
24 Allen scrubbers was required by the Clean Smokestacks

1 Act, so that is a new or unusual or unexpected regulation
2 that they had to comply with. And then the acquisition
3 of part of the Catawba Nuclear Station actually
4 drastically reduced their fuel cost. So there were
5 substantial benefits and those were huge capital costs in
6 comparison.

7 Q Was that the 874 Deferral Order?

8 A Yes, sir.

9 Q And that wasn't the question I asked, was it?

10 A You just referred to the 874 rate case.

11 Q I understand, but that wasn't anywhere close to
12 the question I had, was it?

13 A You talked about basis points and comparing it
14 to this case, sir.

15 Q We understand.

16 A I'm just adding context for, I think, the
17 Commission's benefit and for your benefit.

18 Q And isn't Duke exponentially larger than
19 Carolina Water Service case -- than Carolina Water
20 Service?

21 A I wouldn't say exponentially, but they are
22 larger, yes.

23 Q You wouldn't say exponentially?

24 A I would have to look at the exact number of

1 customers they serve versus Carolina Water and decide if
2 that is exponential. If you want to give me the numbers
3 and we can do some math, I'm happy to do that. I would
4 say it's -- you want me to say significantly larger? I'm
5 willing to say it's significantly larger.

6 Q And in the Sub 874 case, I believe you put in
7 testimony about the two basis point impacts. And tell me
8 again what they were.

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

10 Q Didn't you recite in your response to my
11 question, which wasn't the question, that that involved
12 two deferral requests for Duke and the impact on basis
13 points?

14 A Yes, sir. Sub 874 was a total of 114 basis
15 points, 67 basis points for the Allen scrubbers and 47
16 basis points for the Catawba Nuclear Station acquisition.

17 Q And --

18 A I'm reading right out of your reply comments --

19 Q Right.

20 A -- filed on October 21st.

21 Q And isn't it true that in that case the Public
22 Staff opposed Duke's request for the scrubbers, which you
23 said was a 47 basis point impact?

24 A The scrubbers were the 67 --

1 Q All right.

2 A -- basis point impact. And I've only read, you
3 know, high level into that case, but there had previously
4 been special treatment for addressing Clean Smokestacks,
5 and then I believe it had gone away and that's why Duke
6 had filed for this deferral, but that -- you're getting
7 to the point of my understanding of what was filed there.
8 I didn't file testimony in that case, so I'm not overly,
9 abundantly knowledgeable on that specific case.

10 Q Well, is it possible that the Public Staff
11 opposed Duke's request for deferral of the portion that
12 was related to the 47 basis point impact?

13 A Subject to check, I'll --

14 Q All right.

15 A -- agree with that.

16 Q On page 8 of the Public Staff's Initial
17 Comments in the Sub 365 proceeding, the Public Staff
18 asserts that "Traditional meter and AMR meter replacement
19 projects have not been proposed for deferral accounting
20 in the past." Isn't it true that the Commission has
21 routinely stated that deferral requests by necessity have
22 to be considered on a case-by-case basis?

23 A Certainly so. All we were pointing out is it's
24 odd that the Company has been in for two -- well, really

1 three rate cases, but two of them dealt with AMR meters,
2 Sub 344 and Sub 356, comparable size. So those projects
3 -- let's see, in Sub 344 seven systems that had
4 previously been unmetered, so that is a different
5 project. It's a more complex project. It's more
6 unordinary. There were a total of over 1,100 meters at a
7 cost of over \$1.2 million. And then in the Sub 356 case
8 there were three systems, a total of over 2,400 meters,
9 and a cost of over \$1.8 million. So that's two previous
10 rate cases over \$3 million of capital investment in AMR
11 meters spanning across 10 systems that the Company didn't
12 seek deferral treatment, as opposed to in this case.

13 And in addition, as Mr. Mendenhall, I believe,
14 hit on, they plan on doing more AMR projects. And when
15 asked would they consider deferral treatment, he wasn't
16 willing to say no. And so let's think about the context
17 there. They're planning -- and this is from a data
18 request response -- in the next four years, including
19 this -- 2020, eight more systems, over 4,000 meters. And
20 if we use the \$400 per meter replacement, that means
21 you're talking about over 1.6 million of additional
22 investment that we're not sure if they're going to apply
23 for a deferral treatment on that, again, raising the cost
24 to customers.

1 Q You say "raising the cost to customers."

2 You have -- the Public Staff has not challenged the
3 installation of these mountain meters in three cases,
4 correct?

5 A So my comment about raising the cost is
6 deferral treatment raises the cost to customers.

7 Q In many instances the Commission has allowed
8 deferral of treatment -- deferral accounting treatment in
9 the past; is that not correct?

10 A (Henry) Only in the electric industry; not in
11 the water and wastewater industry.

12 Q You're right. This is the first request, at
13 least as far as we know, for the water and sewer
14 industry, but that doesn't -- that doesn't make it out of
15 bounds or incorrect, does it, Mr. Henry?

16 A They've allowed it in the electric industry, so
17 we thought it was appropriate to at least analyze it in
18 the water and sewer industry.

19 Q Well, and the Company has no problem with that.

20 A (Junis) And we agreed --

21 Q That's to be expected.

22 A Oh, I'm sorry. I didn't mean to cut you off.
23 I was just pointing out that we agreed to deferral
24 treatment on the wastewater treatment plant projects.

1 Q That's right. But, you know, the facts are
2 that the Company has embarked on, with the knowledge of
3 the Public Staff, an AMR mountain system replacement
4 program.

5 A That's correct. The Company has embarked on
6 that, however, in every -- I sat in on, I think, every
7 single one of those meetings, and not once was deferral
8 accounting treatment mentioned. So while the Public
9 Staff agreed that AMR meters were appropriate in
10 mountainous systems, we did not agree to deferral
11 accounting treatment.

12 Q And, you know, we acknowledge that this is the
13 first time that the Company has applied for deferral
14 accounting treatment, but that doesn't mean that it's not
15 appropriate. And the point is, the cost of these meters
16 -- the prudence of the cost of these meters has not been
17 questioned. And -- let me finish my question. I'm
18 sorry. And I do the same thing, so I'm not -- the cost
19 has not been questioned by the Public Staff. I think you
20 would agree that there are costs -- during the period of
21 time from the meters are placed in service between the
22 time that the Commission gets an Order, there are
23 depreciation cost and return cost that -- that are, in
24 fact, incurred by the Company. Would you agree with

1 that?

2 A That's correct.

3 Q And why are those not legitimate ratemaking
4 cost for a general --

5 A I'm waiting.

6 Q -- for a general rate case? I mean, we are in
7 a general rate case. The Company's view is this is part
8 and parcel of the general rate case request. These are
9 legitimate costs incurred by the Company once those
10 meters were placed in service. So why is -- why is that
11 not -- you know, why is it unfair to customers to ask
12 them to pay those costs?

13 A (Henry) We're not saying it's unfair. We've
14 done it on the sewer side for the two wastewater
15 treatment plants. We recognize there's some lost revenue
16 in between the time that those two sewer treatment plants
17 went into service and the time that -- and the time frame
18 until the Commission issued an Order, there's some lost
19 revenues there, and we recognize that on the water -- on
20 the sewer side. On the water side with the AMR meters
21 there is some, but it does not have a significant impact
22 on their revenues, their NOI, and their return on rate
23 base in the overall rate of return.

24 A (Junis) So I think just to add, it gets to the

1 prongs of the test in terms of materiality and then is it
2 unusual or extraordinary. And I think typically how it's
3 looked at is if it is more material, then perhaps the
4 weighting is -- can be less unusual, but if it's more
5 unusual, perhaps the materiality can be a little bit
6 less. In this case the materiality is low and, also, it
7 is low on the scale of unusual. This should be standard
8 operating practice to replace meters on an incremental,
9 regular basis. So I think it fails both prongs of that
10 test, and that is what we stated in our comments.

11 Q Can either of you point to me a case decided by
12 the Commission where they said that if you submit
13 separate deferral accounting requests for different types
14 of equipment or facilities, that they have to be
15 considered separately?

16 A (Henry) We considered these separately because
17 you have four separate rate divisions, Uniform Water,
18 Uniform Sewer, Bradfield Farms/Fairfield Harbour/Treasure
19 Cove Water and Sewer. Each one of those rate divisions
20 has four separate rate bases, four separate revenue
21 expenses, rate of return. They are not calculated in a
22 -- as a total company. So in order -- the reason that we
23 looked at it on an individual basis is because those AMR
24 meters are not going to be recovered from Uniform Sewer

1 customers or customers in Bradfield Farms, Fairfield
2 Harbour, and Treasure Cove, nor will those sewer
3 treatment plants be recovered from Uniform Water
4 operation. You have four separate rate divisions, and we
5 looked at them on an individual basis, how would they
6 affect those rate divisions.

7 Q But the question was can you point to me a
8 Commission Order where the Commission has ever stated
9 that the impact of separate requests have to be
10 considered separately?

11 A (Junis) I don't think it's ever been presented
12 in that fashion.

13 Q Well, wasn't that the situation in the Sub 999
14 docket?

15 A Let's go there. And I don't have the full
16 Order, so you might have to fill in the blanks and
17 explain to me that it was the case. You're implying that
18 it was the case. Can you explain where it was?

19 Q I'm sorry.

20 A I'm sorry.

21 Q What's the question? I mean, I'm asking, you
22 know.

23 A And I suggested I don't think that there's been
24 a case where that's been presented, and then you alluded

1 to that was the case in the --

2 Q Well --

3 A -- Sub 999.

4 Q -- the Order itself specifies four different
5 impacts, two for Bridgewater and two for Buck.

6 A Okay. So can you provide that Order, because
7 all I have in front of me is your Reply Comments that
8 suggest deferred accounting approved for Buck and
9 Bridgewater generating additions estimated to reduce ROE,
10 and there's two numbers. So --

11 Q We'll just leave that for briefing.

12 A Okay.

13 Q Mr. Junis, with regard to the reasonableness of
14 certain factors that you threw out, would you agree that
15 neither "it's a business choice" or "it's not integral to
16 service" are not factors the Commission has articulated
17 as a requirement for granting deferral accounting?

18 A I think it's within the context of the case,
19 and so typically these deferral treatments have been
20 geared towards generating plant. And I think the direct
21 comp to that is new source water treatment or wastewater
22 treatment in the water and the wastewater industry.

23 Q And, again, I think we previously agreed to
24 this, but I'll ask it again, isn't it true that the

1 Commission has routinely stated that deferral requests by
2 necessity have been considered on a case-by-case basis?

3 A (Henry) I agree with that.

4 A (Junis) Yes.

5 Q And just briefly, I want to touch on the issue
6 of regulatory lag and, in particular, all of the
7 adjustment mechanisms that are available within the
8 electric and natural gas industry. And would you both
9 agree that there are many, many rate adjustment type
10 mechanisms available in that industry?

11 A I would say there are more available in North
12 Carolina to the electric and gas industries with the fuel
13 rider, the IMR, the CUT, so -- but there is now available
14 to the water industry the consumption adjustment
15 mechanism, at least there's a statute and a pending
16 rulemaking, and they have the WSIC/SSIC, which I believe
17 expands beyond the scope, even, of the IMR.

18 Q How about -- you like to talk in terms of
19 dollar amounts. Do you know the impact that the IMR has
20 had in terms of millions of dollars?

21 A I'm sure it's a lot, but I don't know it off
22 the top of my head.

23 Q One question I've got there, Mr. Windley (sic)
24 -- or Mr. Henry, is that in terms of these multiple

1 riders, they all basically provide for true-ups, don't
2 they?

3 A (Henry) I'm not familiar with the riders, so
4 I --

5 Q Mr. Junis?

6 A (Junis) So I think this was talked about
7 yesterday, that it is not necessarily a true-up of all
8 cost --

9 Q Right.

10 A -- just pieces and parts specific to that rider
11 mechanism.

12 Q To that specific rider. I would agree with you
13 there. But it is basically where there is a rider,
14 there's basically a 100 percent true-up, assuming
15 prudence, isn't there?

16 A I wouldn't go 100 percent, but it's closer to
17 100 percent.

18 Q And is it not true that -- as far as I know,
19 most, if not all, of those riders involve deferral
20 accounting. Deferral accounting is specifically required
21 and authorized; is that correct?

22 A (Henry) Like I said before, I'm not familiar
23 with those riders in the gas and electric industry enough
24 to have an answer.

1 MR. BENNINK: That's it. Thank you.

2 MR. JUNIS: Thanks, Bob.

3 MR. HENRY: Thank you.

4 COMMISSIONER BROWN-BLAND: Redirect?

5 REDIRECT EXAMINATION BY MS. HOLT:

6 Q Since Mr. Bennink stated several times, the
7 Commission looks at each deferral request on a case-by-
8 case basis, correct?

9 A (Henry) Yes, he did.

10 Q And also in the Sub 874 case, E-7, 874,
11 Commission Order issued on March 31st, 2009, in making
12 its decision in that case, the Commission also, in
13 addition to other factors, considered the current
14 economic conditions at the time, did it not?

15 A Yes. That's what I read in the Order.

16 Q Mr. Henry, just for emphasis, the Public Staff
17 has agreed to include \$900,000 for the cost of the AMR
18 meters in rate base?

19 A Yes. They have been included in rate base in
20 this proceeding.

21 Q As part of the Stipulation in this case,
22 correct?

23 A That is correct.

24 Q Now, we went over the carrying cost associated

1 with the wastewater treatment plants, did we not?

2 A Yes, we did.

3 Q Combined, over \$1 million in carrying cost --

4 A That is correct.

5 Q -- which are included in this case?

6 A They are -- the amortized --

7 Q The amortized --

8 A -- amounts are included in expenses in this
9 proceeding.

10 Q Correct. Approximately 104,000 for Conneestee
11 and 115,727 for Nags Head?

12 A Those numbers are correct, and they are
13 included in maintenance and repair expense.

14 Q In comparison, when looking at the AMR meters,
15 the deferred carrying cost total, as you mentioned
16 earlier, \$64,736.

17 A That is correct.

18 Q As compared to over \$1 million for the
19 wastewater treatment plants?

20 A Correct.

21 Q Okay. And based on the annual amortization
22 amounts, the total combined would be 12,947 for the
23 meters?

24 A Yes. That's the amount that they are looking

1 to include in expenses in this proceeding, the \$12,947.

2 Q As compared to 219,756?

3 A For the wastewater piece.

4 Q For the wastewater treatment plant --

5 A That is correct.

6 Q -- which have already been included?

7 A Yes.

8 Q Now, let's look on the -- look at the -- and I
9 think you alluded to this earlier. The decrease in the
10 return on equity, you stated, was 4.34 percent.

11 A On the sewer side.

12 Q On the sewer side.

13 A Yes.

14 Q Whereas, with regard to the meters, it would
15 be --

16 A Twenty-four (24) basis point reduction.

17 Q As opposed to 434 basis points?

18 A Yes.

19 Q And the decrease in the return on rate base
20 would be what for the AMR meters as compared to the
21 wastewater treatment plants?

22 A For the AMR meters it would 12 basis points.
23 For the wastewater treatment plants, it would 221 basis
24 points.

1 Q Okay. And in looking at these carrying costs
2 in terms of dollars, what does the -- what would be the
3 decrease in net operating income on the sewer side for
4 the Company?

5 A It would only be a \$16,596 decrease in their
6 NOI debt the Commission approved in their last general
7 rate case, Sub 360.

8 Q Now, that's the meter side?

9 A That's the meter side.

10 Q Yeah. \$16,000, as opposed to 270,000 for -- on
11 the sewer side?

12 A That is correct.

13 Q Okay. Now, also in terms of dollars, the
14 revenue requirement decrease for -- on the sewer side
15 would be --

16 A \$353,755.

17 Q And for the meters?

18 A Only \$21,688.

19 Q Okay. And on the sewer side, does that equate
20 -- what does that equate to percentage wise?

21 A That equates to 2.73 of the total service
22 revenues that the Commission granted in the last general
23 rate case.

24 Q As compared to the impact of percentage

1 decrease in service revenues on the water side?

2 A .12 percent.

3 Q So .12 percent versus 2.73 percent?

4 A Correct.

5 Q And I think we alluded to this earlier, Mr.
6 Junis, but I just wanted to ask you this question for
7 clarification. Has the Public Staff always been a
8 proponent of AMR meters across the board?

9 A (Junis) No.

10 Q And it's been established that we -- that
11 Public Staff did not oppose the inclusion of the cost for
12 the AMR meters in this particular --

13 A That's correct.

14 Q -- situation.

15 A So we did not oppose the AMR meter cost in this
16 case.

17 Q For mountain systems.

18 A That's correct.

19 Q Has the Public Staff made a decision with
20 regard to the cost of AMR meters in other non-mountain
21 service areas?

22 A I would say it would depend on the
23 circumstances, but in general, we rely heavily on a cost
24 benefit analysis, and so it depends on system size, the

1 actual cost, the potential benefits to both the Company
2 and the customers.

3 Q Thank you.

4 MS. HOLT: I have no further questions.

5 COMMISSIONER BROWN-BLAND: All right. Well, we
6 stopped at a good breaking point. We're going to break
7 for lunch. I'm going to ask that we try to come back by
8 -- and come back on the record at 1:45. And can I see
9 counsel at the bench, but we're now in recess.

10 (Proceedings recessed, to be
11 reconvened at 1:45 p.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-354, Sub 364 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 6th day of December, 2019.

Linda S. Garrett

Linda S. Garrett, CCR

Notary Public No. 19971700150