

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. W-354, SUB 360

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

Pre-filed Direct Testimony
of
RICHARD LINNEMAN
Financial Planning and Analysis Manager

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

September 4, 2018

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

3 A. My name is Richard Linneman. I am employed as the Financial
4 Planning and Analysis Manager for Carolina Water Service, Inc. of North
5 Carolina ("CWSNC" or "Company"), 4944 Parkway Plaza Boulevard,
6 Suite 375, Charlotte, North Carolina 28217.

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

8 A. I have been employed by CWSNC since November 2016. I
9 graduated from Coastal Carolina University in Conway, South Carolina, with
10 a Bachelor of Science degree in Finance. I am also a Certified Rate of
11 Return Analyst. Prior to joining CWSNC, I was the Director of Financial
12 Planning and Analysis for Leslie's Poolmart, Inc., the world's largest retailer
13 of swimming pool supplies and chemicals. During my five years in that
14 position, I was responsible for forecasting, budgeting, financial analysis,
15 strategic planning, acquisitions, and market valuations.

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

17 A. My primary responsibilities include forecasting, budgeting, and
18 financial analysis. I am also responsible for the oversight of gathering data
19 and preparation of rate cases, filing applications for rate cases, and
20 providing data request responses for support of rate case filings.

21 **Q. Please describe Carolina Water Service, Inc. of North Carolina.**

1 A. CWSNC is a wholly-owned subsidiary of Utilities, Inc. (“UI”).
2 CWSNC is an investor-owned public utility pursuant to North Carolina
3 General Statute (“G.S.”) 62-3, does business as a regulated water and
4 sewer utility in North Carolina, and is subject to the regulatory oversight of
5 the North Carolina Utilities Commission (“Commission” or “NCUC”). The
6 Company has provided water and sewer service in North Carolina for
7 53 years and applies in this case for an adjustment in water and sewer rates
8 and charges for all of its service areas in North Carolina, excluding the
9 Corolla Light and Monteray Shores sewer service area.

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

21 The Company also has an obligation to comply with changing
22 environmental, health, and safety regulations and to fulfill its overall

1 obligation to provide quality, dependable service pursuant to its certificate
2 of public convenience and necessity. To that end, CWSNC has invested
3 more than \$21 million in capital improvements during the two-year period of
4 time extending from 2017 to 2018. In addition, the Company continues to
5 fund required operations and expense (“O&M”) increases to ensure quality
6 and compliant service.

7 **Q. Please describe UI.**

8 A. UI is relatively unique within the water and sewer industry in certain
9 respects. From its inception 53 years ago, UI has concentrated on the
10 purchase, formation, and expansion of smaller water and/or sewer utility
11 systems. Most often, these are the types of systems that cause state
12 regulators and health authorities an inordinate amount of time and concern,
13 due to problems related to product quality, customer service, financial
14 stability and rates.

15 At the present time, UI has over 16 subsidiary operating
16 companies---including CWSNC---which provide water and sewer utility
17 service to approximately 197,732 customers in 16 states.

18 **Q. How do CWSNC’s customers benefit from the Company’s**
19 **affiliation with UI?**

20 A. The affiliation with UI has many benefits for CWSNC customers.
21 One of the primary benefits is that CWSNC has access to a large pool of

1 human resource capabilities upon which to draw. There are experts in
2 various critical areas, such as construction, engineering operations,
3 accounting, data processing, billing, regulation, and customer service.
4 UI has the highest level of combined expertise and experience, allowing it
5 to provide service in a more cost-effective manner.

6 While operating only water and sewer systems, UI personnel can
7 meet the challenges of the rapidly changing utility industry. Because the UI
8 companies are focused on the water and sewer industry, our companies
9 enjoy some unique advantages, one of which is that capital is available for
10 improvements and expansion at a reasonable cost. With increasingly more
11 stringent health, safety, and environmental standards, ready access to
12 capital will prove vital to continued quality service in the water and sewer
13 utility business.

14 In addition, the UI group of companies has national purchasing
15 power, resulting in lower costs to ratepayers. Expenditures for insurance,
16 vehicles, and meters reflect examples of purchases where national
17 contracts provide tangible benefits to ratepayers.

18 **Q. What is the purpose of your direct testimony?**

19 A. The purpose of my direct testimony is to explain why CWSNC has
20 requested Commission approval to increase its water and sewer rates. The
21 Company filed its Application for a general rate increase ("Rate Case
22 Application") on April 27, 2018. I discuss some of the factors that have

1 contributed to the need for these increases and their impact on CWSNC's
2 customers. I also discuss the terms regarding the cost of debt, the overall
3 cost of capital, and rate of return on rate base. In addition, I will sponsor
4 the Company's financial exhibits, including pro forma income statements
5 and balance sheets.

6 **Q. When did CWSNC receive its last general rate increase?**

7 A. CWSNC's last general rate case was decided by NCUC Order
8 ("2017 Rate Case Order") entered on November 8, 2017, in Docket No.
9 W-354, Sub 356.

10 CWSNC is both obligated and committed to facilitate and maintain
11 the continued achievement of its goals and high standards regarding safety,
12 operational excellence and customer service. Therefore, the Company's
13 capital investments in utility plant in service and O&M expense---which
14 provide necessary benefits to customers and which are dedicated to public
15 use---are on-going and must be recovered in rates.

16 By its Rate Case Application, which was filed in this docket on
17 April 27, 2018, CWSNC proposes to continue to operate four Rate Divisions
18 for ratemaking purposes as follows:

19 CWSNC Uniform Water

20 CWSNC Uniform Sewer

21 Bradfield Farms/Fairfield Harbour Water¹

¹ Bradfield Farms is in Mecklenburg County and Fairfield Harbour is in Craven County.

1 Bradfield Farms/Fairfield Harbour Sewer

2 **Q. Please describe the four Rate Divisions and how they will**
3 **operate.**

4 A. The CWSNC Uniform Water and Sewer Rate Divisions will consist
5 of all water and sewer systems currently owned and operated by the
6 Company, except for the Bradfield Farms and Fairfield Harbour service
7 areas. The Bradfield Farms and Fairfield Harbour water and sewer service
8 areas have been combined into separate Water and Sewer Rate Divisions
9 for purposes of this case, with uniform water and sewer rates within each
10 Rate Division. CWSNC's ultimate goal, in future general rate cases, is to
11 move Bradfield Farms and Fairfield Harbour into the CWSNC Uniform
12 Water and Sewer Rate Divisions.

13 **Q. Please describe the Company's proposed rate design in this**
14 **case.**

15 A. CWSNC proposes no rate changes for customers in the Company's
16 Corolla Light/Monteray Shores service area. As for the Corolla
17 Light/Monteray Shores service area, CWSNC's proposal to not increase
18 (but hold constant) the water and sewer rates for those affected customers
19 is consistent with the ratemaking and rate design approved by the
20 Commission in the Company's last three general rate cases (Docket Nos.
21 W-354, Subs 336, 344 and 356) and will continue the orderly process of
22 moving the Corolla Light/Monteray Shores service area toward full inclusion

1 in the Company's uniform water and sewer rates in future general rate
2 cases.

3 **Q. What is the test year for this rate case?**

4 A. The test year for this general rate case is the year ended
5 December 31, 2017. This is the most recent twelve months of data
6 available.

7 **Q. Did CWSNC cause a notice of rate increase of its petition to be
8 mailed to its customers?**

9 A. Yes. CWSNC caused the prescribed Notices to Customers, as
10 approved by the North Carolina Utilities Commission, to be mailed to all its
11 affected customers in a timely manner.

12 **Q. Please describe the rates which CWSNC's customers are
13 currently being charged for water and sewer utility service.**

14 A. By Order dated November 8, 2017, the current water and sewer rates
15 and charges for CWSNC's customers were approved by the Commission in
16 Docket No. W-354, Sub 356. The current Schedules of Rates, which were
17 attached to the Commission's November 8, 2017 Order as Appendices A-1
18 through A-14, are incorporated herein by reference.

19 **Q. What rates does CWSNC propose in this case?**

20 A. The proposed water and sewer rates charges for CWSNC's
21 customers are attached to my testimony as Exhibit 1.

1 **Q. Were the financial schedules attached to CWSNC's Rate Case**
2 **Application prepared by you and/or under your direction?**

3 A. Yes, the schedules attached to the Rate Case Application were
4 prepared by me.

5 **Q. Are those financial schedules incorporated as part of your**
6 **testimony?**

7 A. Yes. They are incorporated herein by reference.

8 **Q. Please describe those schedules.**

9 A. The Rate Case Application includes the financial statements for
10 CWSNC. The referenced Schedules are as follows:

11 Schedule A – Balance Sheet

12 Schedule B – Income Statement

13 Schedule C – Rate Base and Rate of Return

14 Schedule D – Test Year / Present Revenues

15 Schedule E – Proposed Revenues

16 **Q. Please explain how test year expenses were adjusted.**

17 A. As previously stated, the Company's test year is the twelve-month
18 period ended December 31, 2017. Pro forma adjustments were made to
19 the test year expenses based on known and measurable changes to actual
20 expenses.

1 **Q. Were known and measurable pro forma adjustments also made**
2 **to the Company's income statement (Schedule B) and its rate base**
3 **statement (Schedule C)?**

4 A. Yes, as detailed therein.

5 **Q. Why is CWSNC requesting rate relief at this time?**

6 A. CWSNC's current balance sheet and income statement are
7 contained in the Company's Rate Case Application. CWSNC's balance
8 sheet is attached to the Application as Schedule A and the Company's
9 income statement is attached to the Application as Schedule B. The
10 Company's current rate base and rate of return is shown on Schedule C of
11 the Application.

12 Without satisfactory rate relief, CWSNC's ability to continue to
13 provide safe, reliable and efficient water and sewer utility services to its
14 customers and to meet its financial obligations will be impaired and made
15 more difficult. In addition, capital will likely become costlier.

16 More specifically, under present rates, CWSNC is not able to meet
17 its operating costs and earn a reasonable return on its investment in the
18 Company's system. During the test year, CWSNC experienced the
19 following overall rate of return for its combined water and sewer operations:
20 4.60%. The Company's test year overall returns were 4.33% for water
21 operations and 7.07% for sewer operations. These rates of return are well
22 below CWSNC's currently-authorized overall rate of return on rate base of

1 7.84%, which is based on an authorized rate of return on common equity of
2 9.60%, established by the Commission in its 2017 Rate Case Order in
3 Docket No. W-354, Sub 356.

4 **Q. What rates of return and capital structure does the Company**
5 **propose and request in this case?**

6 A. After pro forma adjustments as set forth in its Rate Case Application,
7 CWSNC proposed an overall rate of return of 8.91% for its combined water
8 and sewer operations. This overall rate of return of 8.91% is based upon a
9 capital structure consisting of 47.11% long-term debt and 52.89% common
10 equity and cost rates of 6.00% for long-term debt and 11.50% for common
11 equity.

12 **Q. Please describe the primary reasons which underlie the**
13 **Company's need for rate relief.**

14 A. The primary reasons for CWSNC's requested rate increase involve
15 increases in expenses and plant additions. Significant capital investment
16 has occurred since the last rate case for CWSNC. The Rate Case
17 Application also includes approximately \$6,420,000 of anticipated post-test
18 year additions for projects which are currently in progress---some of which
19 are intended to be completed by the close of the hearing in this case.

20 The new rates applied for by CWSNC are necessary because the
21 Company has been unable to achieve the level of earnings specified by the
22 Commission in the last general rate case for CWSNC. The failure to

1 achieve the authorized level of earnings was caused by increased operating
2 costs to upgrade the level of service, increased operating costs and capital
3 investments required to comply with service obligations (including the
4 regulatory lag encountered in the Company's inability to timely recover such
5 costs through rates), and changes in consumption, all occurring since the
6 last rate increase.²

7 **Q. Please describe the revenue increases requested in this case,**
8 **including details regarding the Company's underlying investment in**
9 **utility plant, capital structure, and debt and equity costs.**

10 A. The Rate Case Application was prepared and submitted pursuant to
11 the provisions of G.S. 62-133 based upon a requested return on the
12 Company's rate base.³ The proposed tariffs are designed to produce
13 additional gross revenues on a companywide basis of \$4,405,535, a
14 13.52% increase over the total revenue level generated by the rates
15 currently in effect for CWSNC. For the CWSNC Uniform Water Rate
16 Division, the proposed tariffs are designed to produce additional gross
17 revenues of \$2,485,611, a 14.64% increase over the total revenue level
18 generated by the rates currently in effect for that Rate Division. For the

² Regarding customer consumption patterns, CWSNC, like the water utility industry in general, continues to experience a consistent decline in consumption. This decline in consumption, combined with regulatory lag resulting from use of traditional historical test year ratemaking principles, impairs CWSNC's opportunity to achieve its Commission-authorized rate of return on equity.

³ By its Application, the Company has requested that the Commission allow it to recover total water service revenues of \$20,955,365 and total sewer service revenues of \$15,905,155 on a companywide basis.

1 CWSNC Uniform Sewer Rate Division, the proposed tariffs are designed to
2 produce additional gross revenues of \$1,022,180, a 7.99% increase over
3 the total revenue level generated by the rates currently in effect for that
4 Rate Division. For the Bradfield Farms/Fairfield Harbour Water Rate
5 Division, the proposed tariffs are designed to produce additional gross
6 revenues of \$511,341, a 47.64% increase over the total revenue level
7 generated by the rates currently in effect for that Rate Division. For the
8 Bradfield Farms/Fairfield Harbour Sewer Rate Division, the proposed tariffs
9 are designed to produce additional gross revenues of \$386,403, a 22.03%
10 increase over the total revenue level generated by the rates currently in
11 effect for that Rate Division. CWSNC requires increased revenues at this
12 level to earn a fair return on its companywide investment of \$114,815,658.

13 The proposed tariffs also include a provision allowing for a
14 pass-through of the cost of water and sewer service, including applicable
15 taxes and fees, required to serve the needs of customers being served by
16 CWSNC in a particular service area, when that water or sewer service is
17 purchased from another supplier. This pass-through provision is authorized
18 by G.S. 62-133.11.

19 **Q. Has the Company included costs for anticipated post-test year**
20 **plant additions as part of its rate case application?**

21 A. Yes. As previously stated, the rate case application includes
22 approximately \$6,420,000 of anticipated post-test year additions.

1 **Q. Has CWSNC been authorized to implement Water and Sewer**
2 **System Improvement Charge Mechanisms pursuant to G.S. 62-133.12**
3 **and Commission Rules R7-39 and R10-26?**

4 A. Yes. Pursuant to G.S. 62-133.12 and NCUC Rules R7-39 and
5 R10-26, the Commission found it to be in the public interest to authorize
6 CWSNC, as part of the Company's 2014, 2015, and 2017 general rate
7 cases in Docket Nos. W-354, Subs 336, 344 and 356, to implement Water
8 and Sewer System Improvement Charge ("WSIC/SSIC") Mechanisms
9 applicable to the Company's customers. By these statutorily and
10 Commission-authorized Mechanisms, the Company is allowed to recover
11 the annual incremental depreciation expense and capital costs of eligible
12 water and sewer system improvements completed and placed in service
13 between rate cases.

14 **Q. Has CWSNC in fact implemented the Commission-authorized**
15 **WSIC/SSIC Mechanisms?**

16 A. Yes. The WSIC/SSIC Mechanisms were implemented pursuant to
17 Commission authorization consistent with applicable State law and NCUC
18 Rules.

19 **Q. Please explain what changes will occur regarding the**
20 **Company's authorized WSIC/SSIC Mechanisms after a decision by the**
21 **Commission in this case.**

1 A. Consistent with NCUC Rules R7-39(k) and R10-26(k), CWSNC's
2 Commission-authorized WSIC and SSIC surcharges will be reset to zero as
3 of the effective date of new base rates established in this general rate case.
4 Thereafter, only the incremental depreciation expense and capital costs of
5 new eligible water and sewer system improvements that have not previously
6 been reflected in the Company's rates will be recoverable through the
7 WSIC/SSIC Mechanisms on a going-forward basis.

8 By law, the cumulative maximum charges between rate cases that
9 the Company may recover using its Commission-authorized WSIC/SSIC
10 Mechanisms cannot exceed five percent of the total service revenues that
11 the Commission ultimately approves in this general rate case.

12 **Q. Do CWSNC's Commission-authorized WSIC/SSIC Mechanisms**
13 **apply to all water and sewer utility customers served by the Company**
14 **in North Carolina?**

15 A. Because CWSNC proposes no rate changes for customers in the
16 Company's Corolla Light/Monteray Shores sewer service area, the SSIC
17 Mechanism does not apply to those customers. The WSIC/SSIC
18 Mechanisms otherwise apply to all other customers served by CWSNC.

19 **Q. Please explain the components of the Federal Tax Cuts and**
20 **Jobs Act and the impact to the Company.**

1 A. On December 22, 2017, President Donald Trump signed into law the
2 Federal Tax Cuts and Jobs Act (“Federal Tax Act”). The most impactful
3 portion of the Federal Tax Act was the reduction of the federal corporate tax
4 rate from 35% to 21%. This portion not only impacts the current tax rate for
5 corporations but also impacts the deferred income taxes recorded on the
6 Company’s books prior to the tax law. The second significant component
7 of the Federal Tax Act is the fact that contributed plant is now treated as a
8 form of income and subject to the corporate income tax.

9 **Q. How does the Company propose to implement and address the**
10 **reduction of the federal income tax rate for corporations?**

11 A. CWSNC has adjusted the federal corporate income tax rate to 21%
12 in this rate case for revenue requirement calculations. Thus, the Company’s
13 proposed rates in this proceeding reflect and incorporate the current federal
14 corporate income tax rate of 21%. Nevertheless, due to the fact that the
15 Federal Tax Act was a singular event occurring outside of the Company’s
16 historic test period, CWSNC asserts that it should not be treated as a
17 stand-alone event since many changes occur over the course of time. For
18 that reason, CWSNC believes the Federal Tax Act should not automatically
19 trigger a refund to customers of revenues collected from January 1, 2018,
20 until a final order is received in this proceeding (the “Review Period”).

21 Instead, CWSNC asserts that the Commission should consider all
22 items within the Company’s revenue requirement and, if the actual return

1 earned by CWSNC during the Review Period exceeds the authorized return
2 considering the new 21% federal corporate tax rate, then, and only at that
3 point, should the Company's refund obligation be determined and ordered
4 by the Commission. Should a refund be required, the Company suggests
5 that such refund should be instituted as a negative surcharge to the
6 customers' bills over a 12-month period.

7 **Q. Please describe the impact to the deferred taxes on the**
8 **Company's books?**

9 A. Prior to January 1, 2018, deferred taxes were recorded on the
10 Company's books at the federal tax rate of 35% to normalize the impact of
11 future tax liability or benefit. Due to the reduction of the corporate income
12 tax rate to 21% on January 1, 2018, the tax liability is expected to be paid
13 back at the new lower federal income tax rate. Because of the lower
14 corporate tax rate, the deferred taxes have been adjusted on the books as
15 of December 31, 2017. The Company is proposing the following as how to
16 treat these excess deferred income taxes ("EDIT"). For EDIT protected
17 under the Internal Revenue Service ("IRS") normalization rules, CWSNC
18 proposes to apply the flow back in accordance with those rules. For EDIT
19 not protected by normalization rules, but related to property, plant, and
20 equipment ("PP&E"), the Company proposes flow back over a 20-year
21 period. Finally, for EDIT not protected by normalization rules nor related to
22 PP&E, the Company proposes flow back over a 5-year period.

1 **Q. Please explain the impact of the Federal Tax Cuts and Jobs Act**
2 **on contributed plant.**

3 A. Due to the Federal Tax Act, contributed plant (“CIAC”) is now
4 considered income and is subject to the federal income tax. The Company
5 proposes that the tax associated with CIAC contributed after January 1,
6 2018 be included as rate base to be recovered through rates. CWSNC
7 takes this position for the following reasons. First, should the tax be passed
8 on to the developers that are contributing the plant, the Company believes
9 this will stifle future growth which, in turn, would have a negative impact on
10 current customers since this business operates with the majority of its costs
11 being fixed. If growth is stifled, it will eliminate the possible benefit of current
12 customers having the fixed costs spread across a larger customer base.
13 Secondly, the Company believes it is a benefit to its customers to have
14 developers contribute the plant since the contributed plant is not included in
15 rate base, thus lowering the Company’s revenue requirement. Since
16 customers receive the benefit of the contributed plant, the Company
17 believes they should also bear the cost of the tax associated with the
18 contributed plant. Support for this recommended treatment is evident in the
19 Florida Public Service Commission’s ruling in Docket No. 20180025-WS,
20 which was closed on April 6, 2018, in which they ordered the termination of
21 CIAC Gross-Up tariffs and in turn ruled that the income taxes on contributed
22 plant be placed into rate base by netting debit deferred taxes against credit

1 deferred taxes. Should the netting of deferred taxes result in a debit
2 deferred tax balance then this balance would be included in rate base.

3 **Q. Please explain the Company's proposed Consumption**
4 **Adjustment Mechanism ("CAM").**

5 A. In its Application, CWSNC requested authority to implement a
6 "consumption band" water and wastewater rate adjustment mechanism
7 within each of the Company's four Rate Divisions for non-purchased water
8 and wastewater commodity customers. The CAM is a mechanism that
9 balances the risk and impact on ratepayers and shareholders of levels of
10 water and wastewater consumption that are either significantly higher or
11 significantly lower than those levels of consumption that were used to set
12 the Company's base rates.

13 CWSNC proposed the CAM in the Application to protect both the
14 Company as well as its customers. The water and sewer industry operates
15 with a cost structure that is mostly fixed; however, the revenue is generated
16 in large portion by the variable consumption component of rates. Several
17 factors out of the control of the Company can impact the consumption
18 component of service revenues, including, but not limited to, conservation
19 efforts and weather. The proposed CAM helps to alleviate the negative
20 impact to the Company of declining consumption and protects customers
21 from over-collection in an increasing consumption scenario. The proposed
22 CAM would operate to review the annual consumption after the close of the

1 year. Should the actual consumption be more than 1% less than what was
2 used in designing rates within the rate case, then a surcharge would be
3 placed on the customers' bills for a period not to exceed 12 months to make
4 the Company whole. Conversely, should the actual consumption be more
5 than 1% higher than the consumption used to design rates within the rate
6 case, then a negative surcharge would be applied to the customers' bills for
7 a period not to exceed 12 months.

8 Accordingly, CWSNC requests that the Commission find and
9 conclude that it is in the public interest to approve implementation of the
10 Company's proposed water and wastewater CAM as part of its Rate Case
11 Order in this proceeding. CWSNC requests that the Commission approve
12 the water and wastewater CAM based on the NCUC's inherent regulatory
13 authority to do so in a rate case and recognizing that a rulemaking
14 proceeding would be required to develop and adopt the terms of such a
15 mechanism. Absent approval of a water and wastewater CAM, the
16 Company and its customers would continue to needlessly experience the
17 vicissitudes of significant variances in consumption over a significant
18 period. CWSNC respectfully submits that approval now of the opportunity
19 to true-up those variances, in a reasonable and prudent fashion, is lawful
20 and in the best interests of customers and the Company.

21 Alternatively, the Company respectfully requests that the
22 Commission find it reasonable, necessary, and appropriate to direct the

1 parties to develop a rate design that is based on a 60:40% ratio of base
2 facilities to volumetric charges for water. This would be a change from the
3 current ratio of approximately 50:50%, base to volumetric. The proposed
4 ratio is needed to more closely align cost recovery with actual costs
5 incurred. With the current ratio of 50:50% the recovery to actual costs
6 incurred is not properly aligned. Currently, the Company is experiencing an
7 actual cost ratio of approximately 80:20% fixed to variable, yet rates are
8 designed with a 50:50% ratio for fixed and variable. This misalignment
9 hinders the Company's ability to earn its fair and reasonable return should
10 consumption decline. The consumption trend across the industry is
11 currently one of decline due to conservation efforts, more efficient fixtures,
12 etc. The current rate design reduces the Company's ability to promote
13 conservation efforts without negatively impacting its ability to earn a fair and
14 reasonable return.

15 **Q. Is this testimony true and accurate to the best of your**
16 **knowledge, information, and belief?**

17 A. Yes.

18 **Q. Does this conclude your testimony?**

19 A. Yes.