

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. W-354, SUB 360

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

Pre-Filed Rebuttal Testimony
of
Dante DeStefano

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

October 12, 2018

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

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

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

8 A. I have been employed by CWSNC since October 2018. I graduated
9 from Rutgers University with a Major in Accounting and am a Certified
10 Public Accountant in the state of New Jersey. Prior to joining CWSNC, I was
11 employed by American Water Works for 10 years - first as a Senior
12 Accountant in the Accounting Department for two years, then in the Rates
13 and Regulatory Department for eight years. During my last eight years with
14 American Water, my duties consisted of preparing and assisting in
15 regulatory filings and related activities for the Eastern Division. My
16 responsibilities included preparing work papers and exhibits, providing
17 testimony in support of rate applications and other regulatory filings, and
18 addressing rate and tariff related matters.

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

20 A. My primary responsibilities include forecasting, budgeting, and
21 financial analysis for the Company. I am also responsible for the oversight

1 of gathering data and preparation of rate cases, filing applications for rate
2 cases, and providing data request responses for support of rate case filings.

3 **Q. What is the purpose of your rebuttal testimony?**

4 A. The purpose of my rebuttal testimony is to identify points of
5 agreement between the positions of Public Staff and the Company, as well
6 as explain where and why the Company disagrees with recommendations
7 of Public Staff. Also, I will be addressing the impact to the Company of
8 Hurricane Florence in September 2018. Finally, I adopt the prior Direct
9 testimony of Richard Linneman in this case, and—for purposes of clarity—
10 repeat some of his comments.

11 **Q. Have you reviewed the filed direct and supplemental testimony
12 of Public Staff witnesses Casselberry, Hinton, Johnson, and Feasel?**

13 A. Yes.

14 **Q. Does the Company agree with any of Public Staff's adjustments
15 to the Company's requested revenue requirement?**

16 A. Yes. The Company believes it is in agreement with the Public Staff
17 on a number of adjustments to the filing, and anticipates filing a Joint
18 Proposed Stipulation prior to the evidentiary hearing.

1 **Q. Is there a potential for further agreement on issues between the**
2 **Public Staff and the Company?**

3 A. Yes. The Company has committed to provide additional updates and
4 actual costs incurred since the filing of Public Staff's testimony and, based
5 upon the Public Staff's review of this information, further agreement on
6 issues that are currently unresolved may be possible.

7 **Q. Does the Company disagree with any positions put forth by the**
8 **Public Staff in their direct or supplemental testimony?**

9 A. Yes. I will detail the Company's rebuttal regarding the following items
10 in this proceeding:

11 1) Executive Compensation Expense

12 2) Insurance Expense

13 3) Contributions in Aid of Construction ("CIAC") and Premium
14 Amortization Adjustment ("PAA") Amortization

15 4) Cash Working Capital

16 5) Federal Tax Cuts and Jobs Act ("Tax Act")

17 6) Consumption Adjustment Mechanism ("CAM")

1 I will also summarize the impacts to the Company of Hurricane
2 Florence and the Company's proposal to address the unplanned costs (i.e.,
3 expenses and capital investments) associated with our recovery efforts.

4 **Q. Please explain the adjustment to executive compensation**
5 **expense presented by Public Staff witness Johnson in her direct**
6 **testimony.**

7 A. Ms. Johnson removed 50% of allocated base salary of three Utilities,
8 Inc. employees: the Chief Executive Officer; the Vice President & General
9 Counsel; and the President of Shared Services.

10 **Q. Does the Company agree with this adjustment?**

11 A. No. The everyday functions of these positions are well-
12 focused on customer satisfaction and efficient, low-cost operations. First,
13 the Vice President & General Counsel provides legal support to the
14 regulated companies such as CWSNC, including, for example, on issues
15 involving human resources matters, health, safety and environmental
16 issues, contract review, litigation support, and review of various legal issues
17 that arise in regulatory and transactional matters, including rate filings,
18 easement and right-of-way issues, and mandatory regulatory and legal
19 policies such as record retention, privacy, and cybersecurity. These are the

1 basic legal functions of any regulated utility—which exist for the direct
2 benefit of CWSNC’s customers.

3 Second, the President of Shared Services’ sole function is the
4 delivery of services essential to local operations and its customers,
5 including customer service, human resources, health safety and
6 environmental compliance, IT, billing, insurance, accounting, and facilities
7 management. The Company rejects the assertion that any of the President
8 of Shared Services’ role supports the shareholder in any other manner than
9 simply facilitating a well-run utility.

10 Finally, the Chief Executive Officer works closely with local
11 leadership in evaluating capital investment plans and operating budgets, as
12 well as providing expertise on and leadership with addressing customer
13 concerns, industry best practices, setting short and long-term operating
14 strategies, and generating company initiatives and policies such as safety,
15 environmental, and business transformation programs. The CEO assesses
16 risks to make sure they are addressed and mitigated to ensure the
17 Company provides safe, reliable, and cost-effective service. In addition, the
18 CEO works closely with the single shareholder and lenders to secure capital
19 and debt for improvements that directly address the needs of our
20 customers. A regulated utility exists solely to provide service to its
21 customers and it cannot exist without debt and equity funding. The

1 Company rejects the notion that any part of the CEO's role is for anything
2 other than what is required to complete this mission.

3 In summary, the function of these three executives is not the
4 equivalent of publicly-traded parent company corporate executives whose
5 job focus may be much more on benefits to the shareholder. Utilities, Inc.
6 is more of an operating company, as demonstrated by the roles of the three
7 individuals at issue. Notably, Utilities, Inc. is not a publicly-traded company,
8 so time spent on shareholder related activities is limited to that which is
9 required to make sure risks are mitigated and capital is secured. Finally,
10 Utilities, Inc. has only one shareholder and dealing with that single investor
11 requires comparable effort as working with our debt holders.

12 Witness Johnson states that "the Company's executive officers are
13 obligated to direct their efforts not only to minimizing the costs and
14 maximizing the reliability of the Company's service to customers, but also
15 to maximizing the Company's earnings and the value of its shares."
16 Witness Johnson also states that the Company's officers have fiduciary
17 duties of care and loyalty to shareholders but not to customers. That is not
18 a fair representation of the implications and impacts of the relationship
19 between the Company and its single shareholder. When the fundamental
20 focus of the shareholder is ensuring customer satisfaction and welfare by
21 providing the best service at the most reasonable possible price—which the

1 management of these regulated utilities are required by statute to do—then
2 the interests of the shareholder and the Company’s ratepayers are
3 understood to be exactly aligned. This alignment becomes clearer when
4 one considers the necessity, for the customers’ benefit, for a utility to attract
5 both high-quality human resources for management and leadership
6 purposes, and to attract financial capital to support such a capital-intensive
7 industry. Attracting capital from investors is vital to fund needed
8 improvements in aging systems and, as other regulators have recognized,
9 one of the great benefits to a local utility being part of a larger utility company
10 is access to capital that the parent is able to provide.ⁱ The ability to maintain
11 and support proper service to customers at a reasonable cost is inextricably
12 linked to the officers’ ability to meet shareholder expectations.

13 Without the executives’ support and services, the Company would
14 neither be positioned to meet the needs of its customers nor be eligible to
15 achieve financial returns that attract debt and equity capital needed for the
16 financial welfare of the utility. Therefore, executive base compensation is
17 an integral and necessary part of the Company’s overall cost of service to
18 meet the needs of its customers, and any reduction to executive base
19 compensation recovery is not warranted in this proceeding.

20 **Q: How has Public Staff Witness Johnson determined the**
21 **appropriate sharing of executive base pay between customers and**

1 **shareholders?**

2 A: It is unclear. The Public Staff appears to make a blanket decision—
3 without examination of or reference to the compensation philosophy or of
4 the actual compensation goals and guidelines—that a 50:50 sharing of the
5 base salary for rate recovery is appropriate. Respectfully, the Company
6 submits that the Public Staff’s recommendation is arbitrary and lacks
7 support in both the facts and in the reality of the functions of this executive
8 team, and that their contributions should be fully supported in rates as they
9 provide direct benefits to customers.

10 **Q: Are there other corporate-level costs benefiting CWSNC and its**
11 **customers that the Company has not included in its revenue**
12 **requirement?**

13 A: Yes. A corporate level above Utilities, Inc. is Corix, which has
14 provided beneficial services and support to Utilities, Inc. and its affiliates—
15 including CWSNC—since its acquisition of UI. However, to date, those
16 “Corix corporate costs” (such as director fees, tax and corporate legal costs,
17 etc.) have not been included for recovery in CWSNC’s rates even though
18 they should be included as part of the overall costs to support the services
19 provided to the Company.

20 **Q. Please explain the adjustment to Insurance Expense presented**
21 **by Public Staff Witness Feasel.**

1 A. Witness Feasel allocated the insurance premiums paid by Utilities,
2 Inc. based upon a variety of factors. Namely, (1) automobile insurance was
3 allocated based on the number of CWSNC vehicles compared to total
4 vehicles covered under the policy; (2) worker's compensation insurance
5 was allocated based upon the proportion of CWSNC payroll to total covered
6 payroll; and (3) property insurance was allocated based upon the proportion
7 of CWSNC property to total covered property.

8 **Q. Does the Company agree with these allocation methodologies?**

9 A. No. The Company understands the desire to identify an allocation
10 method more aligned with the subject of the policy. However, there are far
11 too many factors—which were not considered by the Public Staff—involved
12 in the setting of policy premiums to utilize only one for each policy in
13 allocating insurance costs. For example, in addition to the number of
14 vehicles covered, auto policies consider factors such as “rating territory”
15 (urban vs. rural), vehicle type and storage (maintenance truck vs. pool car),
16 vehicle age, original cost, and claims history. The mix of vehicles covered
17 under Utilities, Inc.'s auto policy will vary for each subsidiary on each of
18 these factors. Similarly, claims history and employee classification mix will
19 influence worker's compensation premiums. Consequently, the Company's
20 allocation method avoids “going down the rabbit hole” of attempting to
21 identify a perfect allocation method, and utilizes a single, consistent

1 allocation method in each application. Therefore, the Company reiterates
2 its as-filed allocation method for insurance expenses as the most
3 reasonable and appropriate allocation method.

4 **Q. Please explain the proposed CIAC and PAA Amortization**
5 **Expense as calculated by Public Staff witness Feasel.**

6 A. Witness Feasel calculated an annual amortization expense for each
7 of CIAC and PAA based on the recommended level of each balance
8 multiplied by the overall composite depreciation rate for the Company's
9 direct plant in service.

10 **Q. Does the Company agree with this calculation?**

11 A. No. The Company believes CIAC and PAA amortization should use
12 the actual amortization rates for each applicable account within the CIAC
13 and PAA groups, and not the proxy of composite depreciation rate. The
14 Public Staff's calculation presumes the mix of asset account values in plant
15 in service and CIAC and PAA are exactly the same, which they are not.
16 Applying the Company's rates to the actual balances at June 30, 2018,
17 composite CIAC rates of 2.49%, 2.04%, 2.50%, and 2.06% were confirmed
18 for Uniform Water, Uniform Sewer, Bradfield Farms/Fairfield Harbor Water,
19 and Bradfield Farms/Fairfield Harbor Sewer, respectively. Likewise, for
20 PAA, the actual water rate of 2.47% and sewer rate of 3.53% should be

1 utilized. As the Company's actual CIAC and PAA composite rates differ
2 from composite depreciation rates due to a varying asset mix, the Company
3 recommends the above rates as the more reasonable and supportable
4 calculation.

5 **Q. Please explain the proposed Cash Working Capital calculation**
6 **proposed by Public Staff witness Feasel.**

7 A. Witness Feasel calculated Cash Working Capital by identifying the
8 Public Staff's proposed General and Maintenance Expenses, less
9 Purchased Water and Sewer Treatment Expenses, and this result was
10 multiplied by 1/8th.

11 **Q. Do you agree with this calculation?**

12 A. No. The Company accepts the commonly used method of applied a
13 1/8th factor to operating and maintenance expenses. However, I submit that
14 it is improper to remove purchased water and sewer expenses, as they are
15 cash expenses (as opposed to non-cash expenses such as amortization
16 and depreciation). As these expenses are invoiced and expensed with cash
17 instrument payments, they are no different in nature from the remaining
18 operating and maintenance expense items. Presumably, purchased water
19 and sewer treatment expenses are excluded as there is currently a means
20 to prospectively update recovery levels between base rate cases. However,

1 this is only true for a portion of such expenses incurred by the Company
2 (i.e., only those systems that are supplied by 100% purchased water) and
3 is only accomplished with a change in rate recovery *after* the increase in
4 expense has been experienced. As such, the Company requests that
5 purchased water and purchased sewer treatment expenses be included in
6 the Cash Working Capital calculation in this proceeding.

7 **Q. Have the Company's operations been impacted by the recent**
8 **Hurricane Florence?**

9 A. Yes. Please see the rebuttal testimony of J. Bryce Mendenhall for
10 more details regarding the operational impacts of Hurricane Florence on the
11 Company.

12 **Q. What unplanned operating and financial impacts has the**
13 **Company incurred due to Hurricane Florence to-date?**

14 A. The Company has begun to identify and compile its operating
15 expenses, capital investments, and lost revenue caused by Hurricane
16 Florence. First, according to the Company's billing records, 45 water and
17 sewer customers within Fairfield Harbor have been disconnected due to
18 Hurricane Florence. In the twelve months prior to the hurricane, this group
19 of customers averaged a combined water and sewer bill of \$57.54 per
20 month. Please refer to Company Witness Mendenhall's testimony for

1 estimated of expense and capital needs in the wake of the hurricane. The
2 costs are anticipated to continue to accumulate as additional restoration
3 work is performed on the Company's water and sewer systems to resume
4 adequate and proper service to customers and as customers who were
5 disconnected are brought back to active service.

6 **Q. Does the Company request authorization for specific treatment**
7 **of these costs in this proceeding?**

8 A. Yes. The Company requests that deferral accounting be authorized
9 for unique operating and capital expenses incurred related to Hurricane
10 Florence, pending determination of any applicable insurance recovery.
11 Should insurance proceeds be insufficient to recover prudently-incurred
12 costs, the Company requests amortization of such costs be addressed in
13 its next base rate proceeding.

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

16 A. As addressed in the direct testimony of Richard Linneman, CWSNC
17 has adjusted the federal corporate income tax rate to 21% in this rate case
18 for revenue requirement calculations. Thus, the Company's proposed rates
19 in this proceeding reflect and incorporate the current federal corporate
20 income tax rate of 21%. Nevertheless, due to the fact that the Tax Act was

1 a singular event occurring outside of the Company's historic test period,
2 CWSNC asserts that it should not be treated as a stand-alone event since
3 many changes occur over the course of time. For that reason, CWSNC
4 believes the Federal Tax Act should not automatically trigger a refund to
5 customers of revenues collected from January 1, 2018, until a final order is
6 received in this proceeding (the "Review Period").

7 Instead, CWSNC has asserted that the Commission should carefully
8 and thoroughly consider all items within the Company's revenue
9 requirement. Indeed, that is precisely what is occurring in the current
10 proceeding. In fact, the Company has updated its original Test Year of
11 December 31, 2017 with actual data as of June 30, 2018, which is
12 approximately the midpoint between the Tax Act taking effect and the date
13 the current rate case will likely become effective and reflects a fair
14 representation of the Company's financial status in the Review Period. If
15 the proper revenue requirement as determined by the Commission in this
16 rate case meets or exceeds that of the Company's last rate case (excluding
17 effects of the Tax Act beyond the change in the income tax rate to 21%,
18 such as amortization of EDIT), it will therefore strengthen the claim that the
19 Company did not exceed its authorized return. Consequently, the Company
20 believes it is in a unique position relative to other North Carolina utilities, as
21 the comprehensive financial review in this proceeding would directly

1 support the retention of the Review Period funds by the Company to sustain
2 its just-vetted operating needs.

3 However, should a refund be required by order of the Commission in
4 this rate case, the Company recommends that the credit be offset by the
5 Company's existing deferred asset balances. This methodology will be
6 explained in more detail later in my testimony

7 **Q. Did the Company present a proposal for return of EDIT funds to**
8 **customers in the testimony of Richard Linneman?**

9 A. Yes. For EDIT protected under the Internal Revenue Service ("IRS")
10 normalization rules, CWSNC proposed to apply the flow back in accordance
11 with those rules. For EDIT not protected by normalization rules, but related
12 to property, plant, and equipment ("PP&E"), the Company proposed a flow
13 back over a 20-year period. Finally, for EDIT neither protected by
14 normalization rules nor related to PP&E, the Company proposed flow back
15 over a 5-year period.

16 **Q. Does the Company wish to update its proposal?**

17 A. Yes. The Company has provided supporting workpapers for the
18 protected Federal EDIT balance and requests a 45-year amortization of this
19 balance using the Reverse South Georgia method, inclusive of gross up, in
20 accordance with IRS normalization rules.

1 The Company was authorized in its last rate case to amortize State
2 EDIT due to a recent tax rate change. The Company proposes combining
3 the remaining State EDIT with the Federal unprotected EDIT and offsetting
4 the balance against the Company's various unamortized deferred
5 maintenance assets in this proceeding. The particular deferred assets to
6 be utilized in this calculation are shown in the testimony of Public Staff
7 witness Feasel, Exhibit I, Schedule 2-10(a), and are comprised of tank
8 painting, wastewater treatment plant painting, and wastewater pumping and
9 hauling costs. The Company believes, and the Public Staff's testimony
10 confirms, there are sufficient deferred assets to offset the combined EDIT
11 credit balance, with a focus on those asset balances closest to conclusion
12 of their amortization period in order to best align this proposal with the Public
13 Staff proposal of a three-year amortization period.

14 This proposal would smooth customer impacts by netting balances
15 due-to and due-from customers immediately, as opposed to initiating
16 offsetting customer rates (recovery in base rates of deferred asset rate base
17 and amortization, versus an EDIT credit "Rider") with different effective
18 periods, which would result in uneven customer impact over the next
19 several years and mask price signals otherwise considered in rate design
20 (i.e., a "yo-yoing" of rates). It will also mitigate cash flow concerns for the
21 Company, as the lower tax rate going forward will lead to slower growth in

1 the ADIT balance, which is a source of cash used for continued capital
2 investment. Limiting interest payments required on refunds also will avoid
3 negative cash flow impacts. It will also avoid for both the Company and
4 Public Staff the additional effort of implementing a new rider, tracking the
5 balances, and potentially manually calculating interest. A similar proposal
6 was recently accepted by the Regulatory Commission of Alaska in Docket
7 U-18-042, Order No. 2.

8 Should the above proposal of offsetting deferred assets against the
9 unprotected EDIT not be adopted, the Company alternatively reiterates its
10 position articulated in the direct testimony of Richard Linneman, with a 20-
11 year amortization of unprotected plant EDIT and a 5-year amortization of
12 unprotected non-plant EDIT.

13 As noted in my testimony above, should a sur-credit be implemented
14 for revenues recorded in the Review Period, the Company also proposes to
15 offset this credit balance with the unamortized deferred assets approved in
16 this proceeding until the deferred assets are exhausted before
17 implementing a sur-credit. Any amount determined to be refunded should
18 be credited to customers over one year, and accrue interest at an
19 appropriate short-term interest rate, especially if refunds commence at or
20 before January 1, 2019. This is more reasonable than the cost of capital
21 rate due to the funds being returned to customers approximately one year

1 or less since they were billed. The Company proposes that any calculation
2 of Review Period revenues to be refunded should identify the percent
3 revenue reduction due to the decrease in income tax expense for each tariff
4 group. This percentage would then be multiplied by the actual applicable
5 revenues booked for the Review Period to determine the level of refund.

6 **Q. Do you have additional comments regarding the impact of the**
7 **Tax Act on contributed plant, beyond those presented by**
8 **Mr. Linneman in his direct testimony?**

9 A. Yes. I would like to note that the Commission issued an order on
10 October 5, 2018, in Docket W-100, Sub 57, which initiated a generic
11 proceeding to review the impacts of the Tax Act on water and wastewater
12 utilities in North Carolina. Comments are due on October 25, 2018. The
13 Company plans on providing comments in the generic proceeding and will,
14 in the interim, comply with the Commission's requirement that the full gross-
15 up method be utilized, excepting circumstances where the present value
16 method is authorized by the Commission.

17 **Q. Have you reviewed Public Staff Witness Casselberry's**
18 **testimony opposing the Company's proposed Consumption**
19 **Adjustment Mechanism ("CAM")?**

20 A. Yes.

1 **Q. Do you agree with it, and if not, please explain.**

2 A. No, I do not agree with the Public Staff's position on the CAM. In its
3 Application, CWSNC requested authority to implement a "consumption
4 band" water and wastewater rate adjustment mechanism within each of the
5 Company's four Rate Divisions for non-purchased water and wastewater
6 commodity customers. The CAM is a mechanism that balances the risk and
7 impact on ratepayers and shareholders of levels of water and wastewater
8 consumption that are either significantly higher or significantly lower than
9 those levels of consumption that were used to set the Company's base
10 rates.

11 CWSNC continues to assert the necessity and fairness of the CAM
12 mechanism, both with respect to the Company and its customers; I again
13 adopt by reference the comments of Mr. Linneman, made in his direct
14 testimony. The Company submits that the overall trend of per-capita
15 consumption continues to decline (see Table 1 below, highlighting
16 Company average usage for a non-seasonal window), and there are
17 numerous studies and reports from across the country over recent years
18 that support this pervasive trendⁱⁱ. NARUC, at its November 2013 meeting,
19 recognized the continued trend in declining consumption, and expressly
20 supported alternative rate mechanisms to address these concernsⁱⁱⁱ.

TABLE 1	
Period	Average Gallons/ERC
Dec 15-Mar 16	4,226
Dec 16-Mar 17	3,839
Dec 17-Mar 18	2,709

1
2 Generally, an increased conservation ethic among customers, as
3 well as the proliferation of efficient water fixtures (i.e., modern irrigation and
4 household plumbing devices) that conform to increasingly strict
5 manufacturing standards,^{iv} contribute persistently to a gradual decline in
6 consumption per customer. These factors are out of the control of the
7 Company and will continue to drive consumption decline for the foreseeable
8 future as older, less-efficient fixtures are replaced with more efficient units
9 and new homes are built at current efficiency standards. The water and
10 sewer industry also operates with a cost structure that is mostly fixed;
11 however, the revenue is generated in large portion by the variable
12 consumption component of rates. Additionally, the Company's revenue
13 requirement is set based on an expected "normal" consumption level, which
14 does not account for the considerable seasonal weather variations which
15 can occur—it is highly unlikely that any particular year will result in exactly
16 the level of consumption utilized in the setting of rates.

17 The proposed CAM helps to alleviate the negative impact to the
18 Company of declining consumption and significant seasonal weather

1 variation and protects customers from over-collection in an increasing
2 consumption scenario. In addition, such a mechanism eliminates the
3 throughput incentive, which currently presents the Company with conflicting
4 motivations. The Company is currently incentivized to sell more water to
5 improve its financial performance, yet this would increase costs to
6 customers and fails to promote conservation of a valuable resource. The
7 CAM mechanism would remove this conflict and allow the Company to
8 promote wise water use without concern for the impacts on its financial
9 results. In short, the CAM better aligns the interests of customers and the
10 Company.

11 As to the Public Staff's specific concerns: (1) CWSNC believes that
12 the Commission has inherent authority to adopt the CAM in this ratemaking
13 proceeding; and (2) the Company fully accepts and anticipates that a
14 comprehensive rulemaking proceeding would ensue, should the
15 Commission conclude in this case that it is in the public interest to approved
16 implementation of a CAM. In such a proceeding, the best decisions could
17 be made about applicable procedures whether they are the ones proposed
18 by CWSNC herein or others to be determined.

19 Alternatively, the Company continues to respectfully request that the
20 Commission find it reasonable, necessary, and appropriate to direct the
21 parties to develop a rate design that is based on a 60:40% ratio of base
22 facilities to volumetric charges for water. This would be a change from the

1 current ratio of approximately 50:50, base to volumetric. The proposed ratio
2 is needed to more closely align cost recovery with actual costs incurred,
3 especially absent a CAM. In the supplemental testimony of Public Staff
4 Witness Casselberry, in response to a customer comment related to the
5 level of base charges, Casselberry states: “[i]t is the Public Staff’s opinion
6 that higher base charges do not encourage conservation” (Pg. 6). This
7 exemplifies the throughput incentive conflict: the Public Staff believes a
8 lower base charge encourages conservation, which may be reasonable.
9 However, absent a CAM to stabilize revenues, this adds revenue volatility
10 to the utility due to a higher proportion of revenues being subject to the
11 vagaries of seasonal weather patterns and any conservation measures
12 adopted by customers. The Company is therefore not properly incentivized
13 to promote conservation, and Public Staff’s position on rate design
14 highlights the need to implement the CAM

15 Additionally, and respectfully, I disagree with the Public Staff’s
16 position that CWSNC is disqualified from arguing this rate design position
17 at this point. The Commission *Order Establishing General Rate Case,*
18 *Suspending Rates, Scheduling Hearings, and Requiring Customer Notice,*
19 dated May 22, 2018, specifically provided as follows:

20 The Commission may consider additional or alternative rate design
21 proposals which were not included in the original application and may
22 order increases or decreases in the utility rate schedules which differ
23 from those proposed by the Applicant. However, any rate structure
24 considered will not generate more overall revenues than requested

1 (See Appendices A-1, p. 5 of 9; A-2, p. 3 of 6, and A-3, p. 3 of 5)

2

3 **Q. Is this testimony true and accurate to the best of your**

4 **knowledge, information, and belief?**

5 A. Yes.

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

7 A. Yes.

ⁱ New York Public Service Commission, Case 16-W-0284, Order Approving Sale of Assets, 4/21/2017, page 7.

ⁱⁱ <http://pacinst.org/wp-content/uploads/2015/04/Water-Use-Trends-Report.pdf>;
Coomes, Paul et al., North America Residential Water Usage Trends Since 1992 – Project #4031, page 1 (Water Research Foundation, 2010)

ⁱⁱⁱ <https://pubs.naruc.org/pub.cfm?id=53A0858A-2354-D714-5175-3BF53CDDC767>

^{iv} Energy Policy and Conservation Acts of 1992 and 2005
Energy Independence & Security Act of 2007