

1 PLACE: Via WebEx Videoconference
2 DATE: Friday, July 10, 2020
3 DOCKET NO.: W-218, Sub 526
4 TIME IN SESSION: 11:15 a.m. to 1:00 p.m.
5 BEFORE: Commissioner ToNola T. 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
11 Commissioner Floyd B. McKissick, Jr.
12

13 IN THE MATTER OF:

14 Application by Aqua North Carolina, Inc.,
15 202 MacKenan Court, Cary, North Carolina 27511,
16 for Authority to Adjust and Increase Rates
17 for Water and Sewer Utility Service in
18 All of Its Service Areas in North Carolina
19

20 VOLUME 7
21
22
23
24

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NORTH CAROLINA UTILITIES COMMISSION

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A P P E A R A N C E S Cont'd.:

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T A B L E O F C O N T E N T S

E X H I B I T S

IDENTIFIED/ADMITTED

Public Staff Thill Rebuttal Cross..... 7/75

Examination Exhibit 1

Public Staff Thill Rebuttal Cross..... 11/75

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Revised Thill Rebuttal Exhibit 5 and

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P R O C E E D I N G S

COMMISSIONER BROWN-BLAND: All right. Mr. Grantmyre.

CONTINUED CROSS EXAMINATION BY MR. GRANTMYRE:

Q Mr. Thill, do you have in front of you Public Staff Thill Rebuttal Cross Examination Exhibit Number 1, NBER Working Paper Series?

A I do.

Q Could you please --

COMMISSIONER BROWN-BLAND: Mr. Grantmyre, just a minute. Let me be sure that that made it into the record.

COURT REPORTER: He broke up at the end of his question. It was like squealing on my end.

COMMISSIONER BROWN-BLAND: But also the identification of the exhibit, I'm not sure that made it into the -- did it -- before we broke?

COURT REPORTER: No, ma'am, it did not.

COMMISSIONER BROWN-BLAND: So if you start with identifying this exhibit again.

MR. GRANTMYRE: We ask that -- this is Public Staff Thill Rebuttal Cross Examination Exhibit 1 and it's the NBER Working Paper Series and -- of the Public Staff's prefiled cross examination questions,

1 it's pages 67 through 92.

2 COMMISSIONER BROWN-BLAND: All right. And
3 it will be so identified as Public Staff Thill
4 Rebuttal Cross Examination Exhibit 1.

5 (WHEREUPON, Public Staff Thill
6 Rebuttal Cross Examination Exhibit
7 1 is marked for identification.)

8 BY MR. GRANTMYRE:

9 Q And Mr. Thill, could you please read the title
10 into the record on Page 1, begins with
11 "Comparing?"

12 A "Comparing Price and Non-Price Approaches to
13 Urban Water Conservation."

14 Q And could you read the organization that
15 published this? I believe it begins with
16 National.

17 A It's the, yeah, National Bureau of Economic
18 Research.

19 Q And you in your prior testimony, I'm not sure if
20 it was in your written testimony, your verbal,
21 you're familiar with this and have read this
22 document; isn't that correct?

23 A That is correct.

24 Q And I would turn you to Page 75 of our numbers,

1 but on the document it's number 7 at the bottom.

2 Are you with me?

3 A I am.

4 Q And could you please read into the record the
5 highlighted material starting on line 160, that
6 first sentence?

7 A "That said, water demand in the residential
8 sector is sensitive to price, but demand is
9 inelastic at current prices."

10 Q And moving on to Page 8, that is Page 8 at the
11 bottom, the highlighted section that begins on
12 Page (sic) 167, could you read that sentence
13 that's highlighted?

14 A *The price elasticity of residential demand varies*
15 *substantially across place and time, but on*
16 *average, in the United States, a 10 percent*
17 *increase in the marginal price of water in the*
18 *urban residential sector can be expected to*
19 *diminish demand by about 3 to 4 percent in the*
20 *short run.*

21 Q And could you read the next highlighted section,
22 page -- on line 173 that first sentence?

23 A "There are some important caveats worth
24 mentioning."

1 Q And moving down to the bottom of the page, could
2 you read, beginning on line 183, the highlighted
3 section and continuing on to the first word on
4 page -- on line 185?

5 A *Third, price elasticities is varied with many*
6 *other factors. In the residential sector,*
7 *high-income households tend to be much less*
8 *sensitive to water price increases than*
9 *low-income households.*

10 Q And could you please turn to Page 14? And could
11 you -- beginning on line 300 could your read that
12 sentence into the record, the highlighted
13 sentence?

14 A *Thus, if water demand management occurs solely*
15 *through price increases, low-income households*
16 *will contribute a greater fraction of the cities'*
17 *aggregate water savings than high-income*
18 *households.*

19 Q And last could you go to Page 18? And could you
20 read the highlighted sentence beginning on line
21 397?

22 A *Under price-based approaches, low-income*
23 *households are likely to contribute a greater*
24 *share of a cities aggregate water consumption*

1 *reduction than they do under certain types of*
2 *non-price demand management policies.*

3 Q Thank you.

4 MR. GRANTMYRE: Chair Brown-Bland, I would
5 request that this next exhibit be identified as Public
6 Staff Thill Rebuttal Cross Examination Exhibit 2.

7 COURT REPORTER: I'm sorry, Mr. Grantmyre.
8 I cannot hear you. The last I got was Exhibit 2.

9 COMMISSIONER BROWN-BLAND: Which one is it,
10 Mr. Grantmyre, in terms of your packet? You're mute,
11 Mr. Grantmyre. We can't hear you. Might need the
12 host's help.

13 MR. GRANTMYRE: I'm on.

14 COMMISSIONER BROWN-BLAND: There you go.

15 MR. GRANTMYRE: Okay. It's Pages 102
16 through 152 of the rebuttal exhibit -- prefiled
17 rebuttal exhibit.

18 COMMISSIONER BROWN-BLAND: All right. Which
19 you identified -- make your request again for the
20 court reporter. She didn't hear you.

21 MR. GRANTMYRE: Okay. It's Public Staff
22 Thill Rebuttal Exhibit -- Cross Examination Exhibit 2.

23 COMMISSIONER BROWN-BLAND: All right. And
24 this is the page that begins "2018 North Carolina

1 Water and Wastewater Rates Report"?

2 MR. GRANTMYRE: Yes.

3 COMMISSIONER BROWN-BLAND: All right. It
4 will be so identified as Public Staff Thill Rebuttal
5 Cross Examination Exhibit 2.

6 (WHEREUPON, Public Staff Thill
7 Rebuttal Cross Examination Exhibit
8 2 is marked for identification.)

9 BY MR. GRANTMYRE:

10 Q Mr. Thill, are you familiar with this report?

11 COMMISSIONER BROWN-BLAND: We've lost Mr.
12 Thill. I don't know what our problems are this
13 morning.

14 MS. SANFORD: Let me step in the hall. Let
15 me see if I -- what I can find out. We have power, so
16 it's not that.

17 COMMISSIONER BROWN-BLAND: All right. Thank
18 you, Ms. Sanford.

19 (Pause)

20 All right. Third time is the charm. Mr.
21 Grantmyre, we've identified the exhibit, Rebuttal
22 Exhibit 2 --

23 MR. GRANTMYRE: Yes.

24 COMMISSIONER BROWN-BLAND: -- and you have

1 posed a question. If you remember it you might remind
2 the witness.

3 (Talking in the background.)

4 All right. Everybody else in the background
5 there at the Aqua location, be aware we're live.

6 BY MR. GRANTMYRE:

7 Q Mr. Thill, you may have already done this, but
8 could you read into the record the title of this,
9 it starts with 2018?

10 A This is a 2018 North Carolina Water and
11 Wastewater Rates Report.

12 Q And you would agree that at the bottom it lists
13 three contributors, the Environmental Finance
14 Center, the North Carolina League of
15 Municipalities, and the North Carolina Water
16 Infrastructure Group? Would you agree to that?

17 A I do.

18 Q And would you turn to Page 105. That's our
19 number. That is, Cross Examination Exhibit,
20 Number 105. These pages at least I see are not
21 numbered other than the numbers we gave. Do you
22 have that available?

23 A Yes, I'm with you.

24 Q And would you agree that the highlighted section

1 has "Provides Water and Wastewater", Number of
2 Utilities", the total is 366?

3 A I see that number. I don't have highlights, but
4 I see that number.

5 Q Okay. Now, moving over two columns over
6 "Provides Wastewater Only". Do you see that
7 column?

8 A Yes.

9 Q And at the bottom number of utilities is 30?

10 A That's correct.

11 Q So if we would add 30 to 366 by lawyer's math
12 that would be 396 utilities with wastewater
13 service in this survey?

14 A That would agree with my accounting math, yes.

15 Q Well, I rely a lot more on yours. Thank you.
16 And if we could go to the next page. And your
17 copy is not highlighted; is that --

18 A It is not.

19 Q Okay. On the bottom it has number 4 myths --
20 well, first at the top it has "Four Myths about
21 Pricing". Do you see that?

22 A I do.

23 Q And could you read number 4 myth at the bottom
24 which continues onto the next page, the entire

1 paragraph?

2 A Promoting conservation requires increasing block
3 rate structures. That's the myth. Several
4 utilities are facing water supply challenges and
5 are looking for ways to use pricing structures to
6 promote conservation. Many different types of
7 pricing structures can be adopted to encourage
8 conservation; some of these are quite complicated
9 and some are very simple. Increasing block or
10 tiered rate structures are sometimes heralded as
11 the solution to conserve through conservation
12 rate setting. While increasing block rates are
13 sometimes priced in a way to encourage
14 conservation, the analysis shows that some
15 utilities with simpler rate structures, such as
16 uniform rates, sent customers stronger
17 conservation price signals than other utilities
18 with increasing block structures. In fact, a
19 significant minority of utilities using
20 increasing block rate structures had less
21 effective conservation price signals than some
22 utilities employing aggressive uniform rates.
23 Rather than focusing on rate structure designs
24 alone, utilities should consider all aspects of

1 pricing. The rates set at each block are more
2 important than having a block rate structure by
3 itself. Above conservation, utilities must
4 determine if their rates are set to truly reflect
5 their costs, and make sure that rates are not
6 artificially low.

7 Q In that last sentence they're referring to, would
8 you agree, many municipal or governmental systems
9 set rates that do not recover their actual
10 operating costs and --

11 A I --

12 Q -- reserve?

13 A Yeah, I believe there's actually some data within
14 this report that would indicate that.

15 Q Now, on the bottom of that same page you see
16 where it lists monthly base charges?

17 A In the graph?

18 Q Yes.

19 A Yes.

20 Q And do you have a color copy or yours is black
21 and white?

22 A It's black and white.

23 Q Okay. At the bottom there are I guess you'd call
24 it a bar graph and the darker one is water and

1 the lighter one next to it is wastewater. Do we
2 agree to that --

3 A Yes.

4 Q -- to the darker and lighter? And will you agree
5 that for base facility charges for water almost
6 25 percent are between \$11.15 (sic)?

7 A That's correct.

8 Q And the \$16 to \$20 at the bottom, approximately
9 25 percent are in that range?

10 A I would read it the same way, yes.

11 Q And you would agree that both of those together
12 total approximately 49 percent?

13 A Yes.

14 Q And you would also agree that the wastewater in
15 the \$11 to \$15 approximately 15 percent are in
16 that rate group base facility charge?

17 A I would agree.

18 Q And the wastewater, moving over one block,
19 approximately 17 percent are in the \$16 to \$20
20 range?

21 A That's correct.

22 Q And if we could go to the next page, Page 108,
23 about a third of the way down there's Table 2.
24 Could you repeat that title for Table 2 beginning

1 with "Monthly"?

2 A "Monthly Residential Base Charges in Water and
3 Wastewater Rate Structures, by Utility Size."

4 Q And you would agree based on -- and there's a
5 column for the water rate structures to the right
6 of this graph and median base charge, down at the
7 bottom it has "All Rate Structures." Would you
8 read the number for the median rate charge for
9 water-base charges?

10 A It's \$16.13.

11 Q And if you could see that it seems to be higher
12 with smaller systems, and larger systems have
13 lower median base charges. Would you agree with
14 that?

15 A More or less, yes.

16 Q And moving over to wastewater rate structures,
17 obviously these are metered systems, the median
18 base charge for the wastewater rate structures,
19 could you read what that number is at the bottom
20 there?

21 A \$18.

22 Q And you would agree in general the larger -- the
23 smaller systems have higher median base charges
24 than the larger systems?

1 A Generally, yes.

2 MR. GRANTMYRE: Commissioner Brown-Bland, we
3 would request that this next exhibit be entitled
4 Public Staff Thill Rebuttal Cross Examination Exhibit
5 3 and it is Pages 133 through 148.

6 COMMISSIONER BROWN-BLAND: Just a minute.
7 Let me get it. All right. This one does not appear
8 to be premarked, correct?

9 MR. GRANTMYRE: Well, the first page and
10 second page it's dark so it's hard to read, but --

11 COMMISSIONER BROWN-BLAND: All right.

12 MR. GRANTMYRE: -- the third page you come
13 out to Page 135.

14 COMMISSIONER BROWN-BLAND: All right. This
15 is - it begins 2020 North Carolina Water and
16 Wastewater Rates Report?

17 MR. GRANTMYRE: Yes.

18 COMMISSIONER BROWN-BLAND: All right. It
19 will be identified as Public Staff Thill Rebuttal
20 Cross Examination Exhibit 3.

21 (WHEREUPON, Public Staff Thill
22 Rebuttal Cross Examination Exhibit
23 3 is marked for identification.)

24 BY MR. GRANTMYRE:

1 Q Mr. Thill, you would agree that at the beginning
2 the title is "2020 North Carolina Water and
3 Wastewater Rates Report"?

4 A Yes, sir.

5 Q And would you agree that this is published by the
6 same three entities that published the prior
7 report?

8 A It appears so.

9 Q And if you would go to Page 4 of the report,
10 which is Page 137 please. And where it says at
11 the top -- the bar graph at the top right could
12 you read the title of that bar graph?

13 A "Median Monthly Base Charge Amounts".

14 Q And what is the amount for the water median base
15 charge?

16 A \$17.

17 Q And for the wastewater?

18 A \$19.

19 Q And you would agree then at the bottom it has
20 the -- we won't go through all the numbers, but
21 you would agree it has median monthly base charge
22 amounts by service population, would you not?

23 A Yes, I would agree.

24 Q Now, you do not have this in front of you, but it

comes from the Public Staff comments filed in Docket Number W-100, Sub 59 on May 22, 2019, which Charles Junis incorporated by reference into his testimony, and at the top of that page it reads "Fiscal Year 2018-2019 Wastewater Residential Flat Rate Structures", and it's Exhibit 1 in his comments which the Public Staff filed. And I would represent to you at the bottom the footnote is adopted from Environmental -- EFC, Environmental Finance Center, Water and Wastewater Rates and Rate Structures in North Carolina as of January 2019," and it has "Retrieved from" the link that it's retrieved from, and I am technologically challenged so I don't know how to get there. But would you agree subject to check in going through this, that report, that there are only five municipal or government-owned systems in North Carolina that have flat-rate wastewater rates?

A I don't know that.

Q Okay. Well, I would represent to you that the report shows that Baldhead Island has a metered wastewater rate, but that is an error. It really has a flat wastewater rate. Would you accept

1 that subject to check?

2 A Sure.

3 Q And another one that's listed is Cumberland
4 County - Kelly Hills District with a population,
5 not customers, population served of 920
6 population. Would you accept that subject to
7 check?

8 A Subject to check.

9 Q And would you also accept subject to check that
10 the report, in the water section of the report,
11 shows that those customers do not receive water
12 bills from that same entity?

13 A I'll take your word for it.

14 Q And the next company going down the list in
15 alphabetical order is Lake Lure with 940
16 population --

17 COMMISSIONER BROWN-BLAND: Mr. Grantmyre, I
18 hate to stop you, but just -- I just need it for my
19 own peace of mind to know -- Madam Court Reporter, are
20 you hearing everything? We can't see her.

21 COURT REPORTER: Yes. Yes, ma'am.

22 COMMISSIONER BROWN-BLAND: All right.

23 COURT REPORTER: I'm hearing, but on my end
24 it looks like I'm frozen, but I'm hearing everything.

1 COMMISSIONER BROWN-BLAND: All right. Be
2 sure you find a way to reach out if you are not
3 hearing.

4 COURT REPORTER: Yes, ma'am.

5 COMMISSIONER BROWN-BLAND: Ms. Sanford?

6 MS. SANFORD: Just a question for
7 clarification for Mr. Grantmyre. I have found that
8 exhibit, the report to which he refers online, but
9 I've lost track of what page he's on. Could you tell
10 me where you are?

11 MR. GRANTMYRE: This is not the prefiled
12 cross exam --

13 MS. SANFORD: Right.

14 MR. GRANTMYRE: -- it comes out of -- this
15 is Exhibit 1 at the back of that report.

16 MS. SANFORD: Of W-100, Sub 59 on May 22nd,
17 2019?

18 MR. GRANTMYRE: Yes.

19 MS. SANFORD: Exhibit 1. All right. Thank
20 you.

21 BY MR. GRANTMYRE:

22 Q Mr. Thill, it says for Lake Lure 940 population.

23 Would you accept that subject to check?

24 A Yes.

1 Q And on the metered -- on the water where it
2 describes the water rates which was a separate
3 table in that same report, it does say Lake Lure
4 has metered water. Now, with regard to
5 Powellsville, the next one going down
6 alphabetically, the population served is 643. Do
7 you accept that subject to check?

8 A Subject to check.

9 Q And per the water service in that same report in
10 the water section, would you accept subject to
11 check that they bill flat-rate water?

12 A Subject to check.

13 Q And would you estimate based upon if they have
14 flat-rate sewer and flat-rate water there are
15 probably no water meters?

16 A That would seem to make sense.

17 Q Now, last is Proctorville and population served
18 is 114. Again that's population, not customers.
19 Would you accept that subject to check?

20 A Yes.

21 Q And in the water section it says there are no
22 water bills provided. Would you accept that
23 subject to check?

24 A Yes.

1 Q Now, don't you believe it's unusual that Aqua
2 North Carolina has metered water for 9,000 plus
3 customers but is not providing metered wastewater
4 rates when there's only five systems in North
5 Carolina that are government systems that have
6 flat rates?

7 A Well, I wouldn't call it unusual. I would say
8 that, you know, every entity has different
9 considerations that we need to take into account.

10 Q Because we looked earlier there were 396
11 wastewater utilities covered in this study and
12 only five have flat-rate wastewater, so you'd say
13 that that is less than 2 percent of the companies
14 or utilities that have flat-rate wastewater. You
15 would agree with that?

16 A I would agree with that, but I would also point
17 out that if based on -- and this is not -- we
18 talked a lot before about representative samples.
19 If we go back to Page 3 of this report which --
20 put my glasses back on -- is Page 136 of the
21 exhibit, 74 percent of the users are
22 municipalities, 12 percent counties, 6 percent
23 not-for-profits. That leaves 7 percent of other
24 and we would be in the other. So I would submit

1 that we've got different considerations than a
2 municipality. We've got different access. We've
3 got different issues operationally.

4 MR. GRANTMYRE: That concludes my cross
5 examination. And the Public Staff wants to wish Mr.
6 Thill our best wishes and good luck on your new
7 adventure.

8 THE WITNESS: Thank you, sir.

9 COMMISSIONER BROWN-BLAND: Mr. Grantmyre and
10 everyone, before we move on we've had quite a bit in
11 the way of a few distractions this morning. But I
12 want to back us up to Public Staff Thill Rebuttal
13 Cross Examination Exhibit 2 wherein Mr. Grantmyre
14 asked Witness Thill about the myths. We want to be
15 sure we disclose on the record that those myths were
16 copied from a blog that Commissioner Hughes wrote. He
17 did not have any role in preparing the reports, but he
18 was the original source of the myths. And the
19 Commission has previously considered this matter, we
20 do not believe that it in any way creates a conflict
21 from him or interferes with his participation, but we
22 wanted to be sure it was disclosed for the record.

23 Does anyone wish to be heard or is that
24 disclosure at this time satisfactory to everyone?

1 MR. GRANTMYRE: On behalf of the Public
2 Staff we think Commissioner Hughes did a really good
3 job. Thank you.

4 COMMISSIONER BROWN-BLAND: Okay.

5 MS. SANFORD: We would certainly agree.

6 COMMISSIONER BROWN-BLAND: Commissioner
7 Hughes, if I left out anything that needs further
8 explanation?

9 COMMISSIONER HUGHES: No.

10 COMMISSIONER BROWN-BLAND: All right. Is
11 there redirect?

12 MR. BENNINK: Yes.

13 REDIRECT EXAMINATION BY MR. BENNINK:

14 Q Mr. Thill, let's start with Public Staff Rebuttal
15 Exhibit 2. And would you look at Page 105? Do
16 you have that?

17 A I'm there.

18 Q In the second column it shows the number of
19 companies or utility systems that provide water
20 and wastewater service, correct?

21 A That's correct.

22 Q And the last category there is For-Profit
23 Multi-System Utilities and it lists two.

24 A That's correct.

1 Q Now, would it be reasonable to assume that that
2 is likely Aqua North Carolina and Carolina Water
3 Service?

4 A Those are the only two names I know.

5 Q And so of the 366 utility systems there, the
6 weighting that Aqua and Carolina Water Service
7 get is only two out of the 366, correct?

8 A That's correct.

9 Q And if you look on the next page, Page 108, the
10 charts that talk about "Monthly Residential Base
11 Charges in Water and Wastewater Rate Structures,
12 by Utility Size". It's unclear to me where Aqua
13 and Carolina Water Service would fit. Do you
14 have an opinion? Do you have any knowledge as to
15 where they would fit in that category?

16 A As far as what their base charge is?

17 Q Yes.

18 A I don't have that with me. I'm sorry.

19 Q All right. But the point is these averages --
20 the averages at the bottom for all rate
21 structures of \$16.13 in terms of the 508, I guess
22 systems there, we don't know how Aqua and
23 Carolina Water Service would factor into that to
24 the population, do we?

1 A I don't know that.

2 Q And would it be a reasonable assumption that the
3 impact of the two public utilities regulated by
4 the Utilities Commission would not have a
5 significant impact on whatever average comes up
6 in this study?

7 A That would seem fair to say.

8 Q Going to Page 106, concerning the four myths and
9 then myth number four continuing on to Page 107,
10 I think you read this into the record, but it
11 says that *some utilities with simpler rate*
12 *structures such as uniform rates send customers*
13 *stronger conservation price signals than other*
14 *utilities with increasing block structures.* And
15 then it goes on to say -- read the next sentence
16 if you would.

17 A Are we starting with "in fact?"

18 Q Yes.

19 A Okay. *In fact, a significant minority of*
20 *utilities using increasing block rate structures*
21 *had less effective conservation pricing signals*
22 *than some utilities employing aggressive uniform*
23 *rates.*

24 Q Now, we heard a lot of testimony yesterday from

1 Witness Junis in particular, which would it be a
2 fair characterization at least from your
3 standpoint that endorsed inclining block rates?

4 A I've certainly read a lot, yes.

5 Q And is the Public Staff perhaps inconsistent in
6 its testimony when there is this myth information
7 here based on what I would characterize as a very
8 positive endorsing of inclining block rates
9 yesterday?

10 A Yeah, their response on the Sub 59 docket
11 actually concluded with a endorsement of a block
12 rate. And, of course, block rate can come in a
13 lot of different ways, but now it would seem that
14 they're trying to challenge the block rate here.

15 Q Now, did the Public Staff propose inclining block
16 rates in this case?

17 A They did not.

18 Q Did they have an opportunity to do that?

19 A Yes.

20 Q Instead what was their rate design proposal?

21 A To increase the volumetric element for both water
22 and wastewater.

23 Q And the -- what's the Company's position on that
24 proposal?

- 1 A Well, you can imagine we don't like it whenever
2 it moves more dollars at risk particularly when
3 there's no safeguards that go along with it. In
4 fact, as we mentioned yesterday that the
5 testimony from Mr. Junis was specific that the --
6 on the water side he was proposing a decreased
7 40:60 ratio to 30:70 making it more volumetric
8 and that was only in the case that there was no
9 CAM or that there was no safeguard for the
10 Company; added risk without any further controls.
- 11 Q And what was his proposal on sewer or metered
12 water customers with sewer service?
- 13 A To go from the current flat-rate environment to
14 60:40 with their own goal of getting 30:70.
- 15 Q And would that increase the Company's risk of
16 possibly -- without some kind of reconciliation
17 process of possibly under-recovering its allowed
18 return and allowed rates?
- 19 A Yeah. Any increase in the volumetric element
20 puts more of that at risk.
- 21 Q Now, to some degree perhaps the answer to that
22 could be consumption adjustment factor or CAM; is
23 that correct from the Company's standpoint?
- 24 A That's correct.

1 Q But you're not pursuing that in this case, are
2 you?

3 A We are not.

4 Q So in the absence of that and with or without the
5 approval of the pilot program, what is your
6 preferred position on rate design?

7 A To certainly not accept any further risk without
8 some compensation for it. So at this point we'd
9 prefer to keep the rates in the same structure
10 they were at in the 497 case.

11 Q And is there -- at this point in time is there
12 some uncertainty about the actual structure of a
13 CAM that would ultimately be approved for the
14 Company let's say in the next rate case?

15 A I would say so. You know, the ruling that came
16 out from the Commission accepted and denied
17 certain elements of both the Public Staff's
18 position as well as the Company's position but
19 ultimately left open a lot of the final direction
20 indicating that it really needed to be considered
21 as part of a holistic discussion about rate
22 design.

23 Q So is it your testimony in this case that with or
24 without the pilot program, no changes should --

1 that no changes should be made to the Company's
2 existing rate design particularly until such time
3 as a consumption adjustment mechanism is in
4 place?

5 A Yeah. Some sort of some offset, some recognition
6 of the additional risk to complete that.

7 Q And isn't that also supported by the fact that
8 the existing rate structure or the existing cost
9 of water and sewer are largely 80 to 90 percent
10 fixed rather than variable?

11 A That's correct.

12 Q You were asked some questions about the
13 discrimination law in North Carolina in terms of
14 ratemaking and rates for customers. Would Aqua
15 have proposed a pilot program that it thought was
16 discriminatory and in violation of that statute?

17 A I would think not.

18 (Pause)

19 COURT REPORTER: I'm sorry. Mr. Bennink,
20 did you just ask another question? It looked like you
21 were, but I couldn't hear anything.

22 MR. BENNINK: No. I was --

23 COURT REPORTER: Okay.

24 MR. BENNINK: -- looking through papers.

1 COURT REPORTER: Thank you.

2 BY MR. BENNINK:

3 Q I want to go back to the questions about the
4 Bayleaf system. Do I correctly remember that you
5 stated that there were approximately 6,000
6 customers in Bayleaf representing approximately
7 10 percent of your customer base at least for the
8 Aqua water?

9 A Those numbers sound right.

10 Q And I think it's in evidence that the average
11 usage for those customers is approximately 7,500
12 gallons per month; is that correct?

13 A In that sort of range, yes.

14 Q But in this customer group at Bayleaf, for
15 instance of the 6,000 customers, are there
16 customers that use 3,000 gallons per month?

17 MR. GRANTMYRE: I would object to this. I
18 don't remember anything about Bayleaf in his rebuttal
19 cross examination. I think that was in the direct
20 cross examination as best I could recollect and so
21 this was not covered.

22 COMMISSIONER BROWN-BLAND: Mr. Bennink, are
23 you linking this to the rebuttal, because I otherwise
24 tend to agree.

1 MR. BENNINK: I thought I was.

2 COMMISSIONER BROWN-BLAND: Do you plan to
3 link it up or is this -- because I agree with Mr.
4 Grantmyre, this was not during rebuttal.

5 MR. BENNINK: All right. We'll drop that.
6 We'll proceed then.

7 COMMISSIONER BROWN-BLAND: All right.
8 Sustained.

9 MR. BENNINK: That's all I have right now.
10 Thank you.

11 COMMISSIONER BROWN-BLAND: All right. Are
12 there questions from the Commission? Chair Mitchell.

13 CHAIR MITCHELL: Thank you, Commissioner
14 Brown-Bland. I do have a question.

15 EXAMINATION BY CHAIR MITCHELL:

16 Q Mr. Thill, I want to ask you the same question
17 that I asked Mr. Junis and Mr. Henry yesterday.
18 I think you were -- I think you probably heard my
19 question and I want to check to see if you heard
20 their responses.

21 A Can you remind me of the topic?

22 Q Yes. I'm sorry. It was on accounting treatment
23 for the payments to Johnston County for
24 transmission and wastewater capacity.

1 A Yes. I thought the Public Staff captured that
2 perfectly.

3 Q Okay. So you take no issue with their -- you
4 agree with the responses given by Mr. Junis and
5 Mr. Henry?

6 A I do.

7 Q Okay. All right. Thank you. Then that covers
8 my questions.

9 COMMISSIONER BROWN-BLAND: Commissioner
10 Clodfelter.

11 COMMISSIONER CLODFELTER: Sure.

12 EXAMINATION BY COMMISSIONER CLODFELTER:

13 Q Mr. Thill, can you hear me okay?

14 A I can.

15 Q Great. A couple of questions about PowerPoint
16 (sic), your favorite topic. Your favorite new
17 topic. I'm not going to ask you anything about
18 in the nursery rhyme and so "Who Killed Cock
19 Robin". I don't care about who said what to whom
20 when. My question is --

21 COMMISSIONER BROWN-BLAND: Commissioner
22 Clodfelter --

23 COMMISSIONER CLODFELTER: Yes.

24 COMMISSIONER BROWN-BLAND: -- is that

1 PowerPoint or Power Plant?

2 COMMISSIONER CLODFELTER: Power Plant.

3 COMMISSIONER BROWN-BLAND: All right. Thank
4 you.

5 COMMISSIONER CLODFELTER: All right. Thank
6 you. Thank you, Commissioner Brown-Bland.

7 BY COMMISSIONER CLODFELTER:

8 Q My question is about the version of Power Plant
9 that Aqua North Carolina has. Does that version
10 contain within it the module or the functionality
11 that Mr. Junis, I think his name for it was
12 "completed but not yet categorized"; does it
13 contain that functionality?

14 A It does.

15 Q It does. And do you know how long it's had that
16 capability?

17 A I assume since we've had it because some of our
18 other subsidiaries, I think, indicated earlier
19 actually use it.

20 Q Okay. Did Mr. Junis correctly describe how that
21 functionality operates with respect to a cost
22 that is captured after the in-service date of a
23 capital item?

24 A I would say generally speaking, yes.

1 Q That's all I have. Thank you, sir.

2 COMMISSIONER BROWN-BLAND: Commissioner
3 Duffley.

4 EXAMINATION BY COMMISSIONER DUFFLEY:

5 Q So my first question is related to Commissioner
6 Clodfelter's question to Mr. Junis. He asked,
7 you know, why do we need another pilot program,
8 any type of pilot program, and I just wanted to
9 ask you to respond to that as well.

10 A Well, I guess the short answer is there are -- as
11 we've talked about quite a bit already, you know,
12 there are seven different block structures within
13 the seven largest cities here in North Carolina.
14 Each one is quite a bit different. Each has
15 different conservation signals. Each has
16 different considerations. You know, some of that
17 is the stability of the revenue stream. So
18 there's a lot of different things that go into
19 it. We're still trying to figure that out. So
20 could we do a block structure across the entire
21 customer base? Yes. And that would be 80,000
22 households that would basically be put into a
23 test scenario and to do that to 80,000 as opposed
24 to a smaller subgroup we just felt it was not a

1 prudent decision.

2 Q Okay. Thank you. And then with respect --
3 continuing with the conservation pilot program,
4 you discussed nondiscretionary usage or minimum
5 usage in your rebuttal. Does Aqua have data or a
6 program to track the information on average
7 minimum usage per person in Aqua's customer base?

8 A I'm not familiar with an actual metric that we're
9 using, but certainly that's data that could be
10 gleaned from, you know, all the customer bills
11 that we have.

12 Q And do you have data -- this might've been
13 discussed yesterday a little bit. Do you have
14 data on household size for each of Aqua's
15 systems?

16 A I don't know for a fact, but I don't know why we
17 would have that level of data.

18 Q Okay. And in your rebuttal testimony you confirm
19 that the Company's position is that you'll
20 withdraw the pilot program without a revenue
21 reconciliation. And if the Commission modified
22 that reconciliation process, would that be
23 acceptable to Aqua to proceed with the pilot
24 program?

1 A Well, I certainly won't speak for the Company
2 other than to say that modified is a -- could be
3 a very dangerous word, so we couldn't commit to
4 that.

5 Q You'd have to see it before you can respond.
6 Okay. And then a question that was asked to
7 Mr. Becker on the first day, and this is -- let
8 me see -- changing gears, it's with respect to
9 the issue of increased capital spend and how long
10 it would take for depreciation to catch up. And
11 it's just a hypothetical. I'm not asking what
12 your actual future capital spend is, but do you
13 have kind of a ballpark estimate if you continued
14 on with \$40 million each year how long it would
15 take for the depreciation to catch up?

16 A I'm really happy to have you ask me that
17 question, because I was listening from home and
18 wanted to jump through and help Shannon out with
19 that. So the real easy math is when you've got
20 \$40 million of capital being spent, the average
21 depreciation rate for us is about 3 percent. So
22 3 percent of \$40 million is \$1.2 million. So
23 that \$1.2 million is the increased depreciation
24 each year.

1 So back to the example we're
2 talking about, if we're at \$40 million to spend
3 versus \$10 million of depreciation and that
4 depreciation is only increasing a million dollars
5 a year, we're only going to close the gap from 40
6 to 20 in 10 years. And it's not even a
7 straight-line basis. There's other factors that
8 get into it. You know, it'll take 25 years
9 before you're at \$30 million. It's a long time.
10 This is not a short-term issue.

11 Q Okay. Thank you for that. Nothing further.

12 COMMISSIONER BROWN-BLAND: All right.

13 Commissioner McKissick.

14 COMMISSIONER McKISSICK: Thank you.

15 EXAMINATION BY COMMISSIONER McKISSICK:

16 Q Mr. Thill, I did have a few questions about Power
17 Plant based upon your testimony earlier. Now, I
18 take it that you had a chance to review the joint
19 testimony of Henry and Junis that was filed with
20 the Commission back on it looks like it was the
21 26th of May, 2020; you're familiar with that,
22 aren't you?

23 A Very familiar, yes.

24 Q Okay. And, of course, if you're familiar with

1 it, I gather from reading it in pretty
2 significant detail, on Page 5 there were some
3 communications with you specifically about Power
4 Plant that are referred to. Are you familiar
5 with that?

6 A I'd have to look back at that reference but
7 there's -- everything that we provide comes from
8 Power Plant. So whether or not we're talking
9 about Power Plant specifically or the data that
10 comes out of it, that would be a distinction.

11 Q Okay. Now, it appears based upon footnote 4 that
12 there was an email from you dated April 24th,
13 2020, where you detailed all the functionality
14 components of Power Plant. Are you familiar with
15 that?

16 A I am, which includes when depreciation begins.
17 Yes.

18 Q Right. And, of course, it identified, you know,
19 the in-service date being one of them. And, of
20 course, it talks about this field indicates the
21 date the asset is placed in service and being
22 used for the benefit of the customers.

23 A That's correct.

24 Q That would be based on what you indicated, right?

1 A Yes, sir.

2 Q Now -- and, of course, you also provide
3 information about the hosting or unitization date
4 as well. Now, of course, in your definition here
5 you indicate that that's the date that
6 depreciation begins.

7 A That's correct.

8 Q All right. Now, let me ask you this, and I
9 believe later there was a further exchange of
10 emails beginning around May 4th, 2020, where you
11 went in further about distinguishing the
12 in-service date and the unitization date. Now,
13 why is it your contention that depreciation
14 should begin at the in-service date versus the
15 unitization date? Or Aqua's position I should
16 say, because I think that gets --

17 A Sure.

18 Q -- to the heart of this issue. What date does it
19 actually begin?

20 A Yeah. I think you've captured exactly where this
21 whole issue goes. So with your permission, I'd
22 like to take us back through that history a
23 little bit. And most of this has been talked
24 about in some way, shape, or form, but I think

1 it's important to understand how this came to be.

2 You know in the Sub 274 case going
3 back to I believe 2008, there were -- the
4 consolidation that was happening across the
5 different aggregation of systems and it happened,
6 it got to that point where the system wasn't
7 maintained as well as it should have and it's
8 difficult to do when everything is being done in
9 itself. So the decision was made that they had
10 to, you know, spend the money to do this
11 correctly and that's where Power Plant came in.

12 But in that Order, the 274 Order,
13 and I've got some of it in front of me and some
14 of this was also in testimony that I think both
15 Mr. Junis and I repeated, it says *That Aqua North*
16 *Carolina shall adopt a consistent, accurate, and*
17 *complete accounting system for its detailed plant*
18 *records that maintains its plant records in*
19 *compliance with Uniform System of Accounts.* So
20 key for us as this is being, you know, drafted
21 and in how we're going to do things in concert
22 with the Public Staff is compliance with the
23 Uniform System of Accounts.

24 So I've got here a couple of

1 pieces of the definitions within that. And this
2 is what guides utility accounting. And, of
3 course, the Commission can layer in some
4 additional requirements, but whereas I didn't
5 come from the utility industry. I came from
6 outside and GAAP controlled everything. This is
7 kind of a different world. So Uniform System of
8 Accounts is our first guidance, and then
9 supplemented by what the Commission would have us
10 do.

11 So that said, within the Uniform
12 System of Accounts in the description of what
13 construction work in progress is, which is CWIP,
14 so this says *Work orders shall be cleared from*
15 *this account as soon as practicable after*
16 *completion of the job.* The key word there for us
17 is "practicable." It shows a recognition of the
18 fact that this is not a switch. And when
19 projects are being done, and Mr. Becker talked
20 about one situation where it's very easy to deal
21 in the theory of how things should be done. So
22 Mr. Grantmyre said it's pretty easy to tell water
23 goes through a system. Isn't that in service?
24 Well, yes, but if there is some sort of

1 additional requirements to make sure that that
2 system is operating professionally and the way it
3 needs to, maybe there are some additional
4 modifications that need to happen, maybe there's
5 some post-startup testing that needs to be
6 created. There are things that happen outside of
7 that particular day that would imply that it's
8 not quite complete. It's doing a function, but
9 it's not quite complete. And sometimes that
10 takes time.

11 And so it's not even a question in
12 here about when it's in service. It talks about
13 after completion. And it talks about
14 practicable, because this is not as easy as it
15 seems.

16 The life of theory, it is great.
17 It covers 80 percent, 90 percent of the world
18 and, you know, this is -- again, I'm in the
19 accounting world and, you know, it would great if
20 we looked at accounting and everything was black
21 and white and right and wrong and everything
22 knows -- everybody -- exactly what the rules are,
23 but there's always gray, because there's
24 interpretations that need to happen. And those

1 are the things that happen on a daily basis.

2 So when we've got that as our
3 overriding beginning principle is that things
4 should move from quick into depreciable plant in
5 service when practicable, not on a particular
6 system date, but when practicable, that flows
7 into the system that was developed at the time
8 which was to say that it's going to take
9 sometimes 30 to 60 days for us to do the complete
10 unitization, to move this from CWIP into
11 depreciable property. So sometimes it's going to
12 take some time.

13 Now, what has been interpreted
14 from that or at least what has been presented in
15 Staff's argument was that initially it should
16 always be 30 to 60 days. The argument that was
17 presented seems to have changed course as I read
18 through it, because it challenges the fact that
19 because we're not doing it 30 to 60 days always
20 and sometimes we do it in the month of, that
21 means now we've shown that we can do it and it
22 should always be in the month of and that's just
23 not the reality.

24 So if we stuck with the initial

1 presentation that Staff provided which was whoa,
2 you're not operating according to your plan
3 because you're not waiting 30 to 60 days, that
4 would indicate that all of those -- we've heard
5 about blankets - these routine replacements that
6 unitize in the month of the spend. If we were
7 waiting the 30 to 60 days for that, those
8 blankets in November and December actually pushed
9 into next year and that doesn't make any sense.
10 It wouldn't be fair. And so there is that gray
11 if you will that goes into this and that's what
12 makes it difficult.

13 The what I'll call the 106 account
14 that they're -- that Mr. Junis spoke about
15 yesterday. He's right about the functionality.
16 Now, whether or not it actually works within this
17 construct is different, because even across the
18 eight states that Aqua operates in we've got
19 different requirements with regards to
20 depreciation. I was talking with the former
21 controller in Illinois, says their depreciation,
22 everything in a quarter is actually unitized in
23 the start of the next quarter, so there's a lag
24 going the other way for their assets.

1 There are different things in
2 every community and I certainly don't know them
3 all, but what I do know is that the person who
4 runs it for North Carolina, Tammy Bernard, who's
5 been doing this for nearly two decades, she was
6 part of the initial transition to Power Plant and
7 she's been doing this on a daily basis for the
8 last decade and she has concerns over whether or
9 not that 106 account, that -- again, I'm sorry,
10 we don't use it here so I'm not familiar exactly
11 what the name of that account is, but it is
12 something known and used elsewhere within Aqua,
13 we don't know how well it works for us. There
14 are challenges. There are considerations that
15 she has shared with me. I don't know them well
16 enough to share with you, because I think
17 follow-up with that next question you might ask.
18 She has concerns and she's the one that deals
19 with this on a daily basis. If she has concerns,
20 I think we have to have concerns as well.

21 And so I only bring that up to say
22 this whole thing is far more complicated. The
23 issues that are presented now are not the same
24 issues that were presented in 2008. There were

1 no discussions about whether or not it should've
2 been in-service date or unitization date to start
3 depreciation. We're in a whole different
4 discussion and that's not to say it's not -- that
5 discussion shouldn't be had. But it is important
6 to know this is not something that we failed to
7 fix 10 years ago and we've just been taking
8 advantage of that going forward.

9 So there's a new question on the
10 docket which is when it should -- as he correctly
11 stated -- when should it be -- when depreciation
12 should begin. And the answer is I'm not sure,
13 because there may be costs associated with
14 modifying the system in order to be able to
15 change when that happens. I don't know if we can
16 do it with the current personnel. I'm saying
17 that we can't. I don't know. And that's why
18 we've agreed to review it.

19 I think the Public Staff has
20 raised an issue which is quite frankly valid. I
21 mean, I started my career in public accounting
22 and in that role you have to have what I'll call
23 a healthy skepticism and that concept shares very
24 well what the Public Staff's role is. So they've

1 raised a question. I think it's important that
2 we all evaluate it. As I mentioned, we started
3 looking at that a year ago and we made one
4 modification. I don't think it's probably enough
5 and I think it needs to continue to develop much
6 as this entire argument has.

7 I hope that answered your question
8 somewhere in there.

9 Q It certainly responded to the question and I
10 appreciate that. I guess the thing which I'd
11 like to get some clarification on, because I
12 guess what I was hearing from your earlier
13 testimony is that this only became an issue that
14 you were aware of almost yesterday. It looks as
15 if over a year ago there was some conversation
16 with the Public Staff about these emails that
17 occurred most recently between you and the Public
18 Staff dealing with this very issue which is
19 before us at this time, and I assume that this
20 might've been one of the reasons why this issue
21 did not get resolved before the hearing.

22 So, I mean, I guess the thing I'm
23 looking for is this, would Aqua appreciate a
24 bright line standard so there is no ambiguity? I

1 mean, to say either it might be this in-service
2 date because it might be the date that it becomes
3 used and useful, or that it's some other point in
4 time whether it's unitization or not, or how that
5 would be done. I mean, I take it that would be
6 helpful to Aqua.

7 A Absolutely. You know, having that bright line is
8 always beneficial to all parties, because then
9 you have something to measure against. What's
10 important for us as we move forward with some
11 sort of review is to understand the implications
12 of such a bright line.

13 So if we were to say, using the
14 same example I used earlier, that it's whenever
15 water starts passing through. Well then
16 understand that that decision, that cost that is
17 incurred three months later to try to bring that
18 plant up to, you know, where it needs to be, is
19 already depreciating even though you haven't
20 spent the money yet. You haven't made the
21 decision yet and you've already started
22 depreciating. You've lost part of that corpus of
23 what's being -- was being recovered.

24 And so it's important to

1 understand all of those things and that's the
2 difference between the theoretical world that was
3 presented yesterday and, you know, the experience
4 that Tammy Bernard and her peers across the
5 states provide as we move forward.

6 Q I know you've mentioned Tammy Bernard twice now,
7 and I gather she was involved when Power Plant
8 was first beginning to be utilized back in 2009.
9 Have you had conversations with her recently or
10 has the Public Staff been provided access to her
11 to try to resolve this issue, because it's
12 obviously a critical issue that needs to be
13 addressed and clearly defined?

14 I mean, when I read in-service
15 date and I see it's the date that you've defined
16 as being for all practical purposes the way you
17 say it used for the benefit of customers,
18 according to your definition, then that tends to
19 translate into being used and useful as I stand.
20 Now I'm not an accountant. But has there been
21 that communication to try to get that resolved?

22 A Yeah. For us, this -- that bright line of that
23 distinction from the Public Staff is brand new.
24 I mean, literally within the last 24 hours. So

1 no, those discussions haven't happened. Tammy
2 Bernard has been involved in the entire rate
3 case. She is our expert. And, you know, I do
4 bring up her name a lot.

5 I'll tell you that I may not speak
6 with as much passion as Mr. Junis does, but if we
7 want to get to an area where I'll get passionate
8 about and that's the integrity of the folks here.
9 And there's been a lot things lobbied in both the
10 text of what's been submitted as well as the
11 testimony provided here in the last two days.
12 And anybody who knows Tammy, and Susan Wilburn
13 who is also a part of some of this process, who
14 have been doing this for 20 and 40 years
15 respectively, the idea that there's some sort of
16 nefarious operation going on where we are trying
17 to, you know, manipulate things here, because we
18 have a lack of integrity by the people doing
19 this, that's a discussion I'm happy to have and
20 you'll see a lot of passion from me there.

21 Q And this will probably be my final question in
22 all probability. I know earlier you started
23 reading from that relevant provision and the
24 Order entered in W-218, Sub 274 and in saying

1 what Aqua needed to do and this was one of the
2 prerequisites that led to the development of
3 Power Plant. And, of course, in that final
4 sentence it seems to read that *If Aqua NC files a*
5 *general rate case for any and all of its*
6 *operations based upon a test year in which plant*
7 *records have not been brought into compliance,*
8 *any additional rate case costs due to the*
9 *inadequate records shall not be borne by the*
10 *ratepayers.*

11 Now, that language does appear in
12 this Order. I mean, based upon where we are
13 today as we move forward, certainly right now
14 don't seem to be an issue of contention except
15 what happened previously. Do you feel that this
16 is, in fact, the standard that's already been
17 established since 2008 that Aqua in any -- you
18 know, should be held accountable to?

19 A Well, I would say that, you know, we're always
20 supposed to be held accountable for anything
21 that, you know, might not be prudent. So from
22 this perspective, as I mentioned when we're
23 talking about compliance in 2008, it's compliance
24 with the Uniform System of Accounts. And that --

1 the process that has been developed was together
2 with the Public Staff. As I understand it that
3 there was a quarterly reporting requirement after
4 that Order was instituted that went on for
5 several years. And each time there is reference
6 to the fact that they're working towards the
7 implementation of Power Plant, we were working
8 together with the Public Staff on that. Public
9 Staff did not object to any of that and finally
10 got to the point where the Commission no longer
11 required reporting about that requirement,
12 because it would appear from our standpoint that
13 everybody was content that we had satisfied our
14 requirement.

15 And I'll say further that, you
16 know, the information that is provided on a
17 regular basis -- I mean, there's been several
18 rate cases since that timeframe. There have been
19 WSIC/SSIC filings on a semiannual basis for the
20 last few years. And all of that information just
21 bolsters the fact that, I mean, there's a lot of
22 information that transfers from the Company to
23 Public Staff in that timeframe. The difference
24 here today is a change in direction and for the

1 first time we're hearing that they believe that
2 depreciation should start on the in-service date
3 and maybe that's the way it should be. We'll
4 leave that to the Commission to decide. But it
5 has to be decided in a fully informed manner and
6 I don't think we're there yet.

7 Q Thank you, sir. I don't have any further
8 questions.

9 COMMISSIONER BROWN-BLAND: Commissioner
10 Hughes.

11 EXAMINATION BY COMMISSIONER HUGHES:

12 Q Yeah. I'd just like to pick up a question about
13 the rate design. If I understood you, Mr. Thill,
14 you made a comment that for very large users of
15 water there may be disconnect between the demands
16 they're putting on the sewer system. I believe
17 that was a point of yours that very large water
18 users it's largely irrigation and that doesn't go
19 into the sewer system. That was my
20 understanding; is that correct?

21 A That's correct.

22 Q So let's talk about on the other end of the usage
23 spectrum. What would you -- what would be your
24 opinion about somebody living alone that

1 typically -- I think you said you have customers
2 that use 3,000 gallons per month. I imagine you
3 have customers that use 2,000 gallons a month.
4 So a customer that uses 2,000 gallons a month of
5 water versus a customer that uses five or 6,000
6 gallons of water, would you say that they put
7 different demands on the operation of the sewer
8 system? Not necessarily cost, but just operation
9 of the sewer system.

10 A In some level, yes.

11 Q So could -- you know, it wouldn't be the same as
12 comparing somebody at 5,000 to 10,000. It's a
13 different comparison when you look at somebody at
14 5,000 to maybe 2,000. They probably have a
15 bigger actual difference on what impacts the --
16 specifically how much wastewater they send into
17 the sewer system.

18 A I think that's a very fair statement. Yes.

19 Q Okay. Thanks. That's all.

20 COMMISSIONER BROWN-BLAND: All right. Mr.
21 Thill, I have a couple more.

22 EXAMINATION BY COMMISSIONER BROWN-BLAND:

23 Q Yesterday you heard the question to Witness Junis
24 about the pilot program being capped to the

1 revenue requirement and possibly excluding a
2 portion of the organic customer growth. The
3 Public Staff as I understood it said they would
4 be good with that concept. Is that the same with
5 the Company?

6 A I would not speak for the Company with regards to
7 that. I personally don't agree with that,
8 because growth is a future number. That event --
9 when we look at how rates are defined we don't
10 take a look at what was the actual consumption
11 over the last three years. We have trends. We
12 have the customers that were added in the last
13 six months to update the rates, we roll them
14 forward to the March 31st date, we didn't just
15 include them assuming that new customer in March
16 used 3,000 gallons, they don't just add 3,000
17 gallons to this equation. They don't add 1,000
18 which would be the three-year average. They add
19 3,000 times 12 months. I'm sorry, they don't
20 even do that, because it's actually done on an
21 average customer level.

22 So there's -- we're not truly
23 using a hard three-year average of total
24 consumption gallons. There's a lot of averaging

1 and whatnot. Normalization is the number or the
2 word we like to use as we're describing the
3 process. And so that normalization process,
4 whereas I think makes sense because that is
5 represented by the idea of how much revenue
6 should be collected but from that customer base.

7 So to take the revenues associated
8 with the folks that are going to come on board
9 tomorrow and not take into account the totality
10 of costs that change tomorrow, if there was, you
11 know, a CPI adjustment that went across all of
12 the costs, then it might make more sense. But if
13 you're taking just basically single-issue
14 ratemaking, and I shouldn't even use that term
15 because you all know it so much better than I do,
16 but you're taking one part of the equation and
17 that is just the revenue side and you're fixing
18 that against expenses that happen, you know, a
19 year ago. By the time rates are in effect, which
20 I'm going to assume is October 1st, most of those
21 costs are already a year old in what goes into
22 the revenue requirement, so we already are behind
23 the eight ball for some level of inflation that
24 may have occurred.

1 Now some of those, as Mr. Junis I
2 think mentioned yesterday, we'll roll forward to
3 March -- the end of March so now you're only six
4 months old in that timeframe. We still have the
5 additional capital that's being expended in that
6 timeframe, so even when rates finally go into
7 effect we're already behind the eight ball. So
8 the idea that we're going to -- that we would
9 voluntarily give up a portion of the additional
10 revenue that comes with growth, no, that's just
11 going to bring us back to where we'd see them
12 quicker.

13 There was conversation yesterday
14 about what the real lag number is. I know
15 Mr. Junis didn't like the numbers that Mr. Becker
16 provided. Okay. So the minimum lag which is a
17 cost to the Company is three months in the
18 WSIC/SSIC and it's essentially six months in a
19 rate case. Well, it's only a minimum on that
20 rate case number if we're in every month for new
21 rates, which, of course, you know, we'd all leave
22 the industry for that. It's going to take some
23 period of time before we get to the point where
24 we're willing to do another set of -- another

1 rate case.

2 So I'm sorry. I'm rambling on and
3 I don't want to do that. The short answer is I
4 don't think the Company would agree with that.

5 Q And that -- and your answer stays the same even
6 though that's limited to the pilot program and
7 the pilot program may be limited in time and the
8 pilot program as it is proposed now is not across
9 the board?

10 A Well, even more so for the pilot program, because
11 there are so many other factors. I mean, we're
12 intentionally trying to drive consumption down.
13 We just don't know what other ramifications come
14 from this, and so there's too many unknowns for
15 us to take on the additional risk when it's not
16 compensated. I mean, anything that we lose is
17 truly lost, and we're already having trouble as
18 Mr. Becker has talked about with our return.

19 Q All right. Thank you. My next question
20 concerns, I think it was in your rebuttal that
21 you indicate that the Company without a revenue
22 reconciliation for the pilot would withdraw the
23 pilot. And my question is as I understand it the
24 reconciliation portion wouldn't happen for like

1 about a year after the pilot itself was
2 implemented; is that correct?

3 A That is correct.

4 Q And so what if at the front end, what if we were
5 in agreement that there would be reconciliation
6 but all the facets or the methodology is not
7 agreed upon at that time. Is it objectionable to
8 the Company to go ahead with implementation of
9 the pilot under those conditions with the
10 understanding that everybody would work together
11 and agree to the details of the reconciliation
12 after?

13 A That's a better question for Mr. Becker. I
14 think, you know, from the Company's standpoint we
15 would have to know where the starting positions
16 were hoping that we'd end up somewhere in
17 between. Right now we don't know where the other
18 side is other than no.

19 Q And practically the same, but a little bit of
20 variation. So the Company would -- if the
21 Company's proposed reconciliation proposal is not
22 accepted in its entirety, is that -- also would
23 the Company stand by its position that it would
24 want to withdraw the program? Is there some room

1 left open for some tweaking and modification?

2 A That's a better question for Mr. Becker. I don't
3 feel -- as a contract employee now I don't feel I
4 should speak for the Company from that
5 perspective.

6 Q Some might argue that you're freer to speak for
7 yourself now than you were before, but --
8 that's --

9 A I'm surely freer, but I can't commit in the same
10 level.

11 Q I understand. Understand. I appreciate the
12 response.

13 COMMISSIONER BROWN-BLAND: As you might have
14 noticed, I have let the lunch hour pass and that is
15 because I believe that we will wrap up pretty soon
16 unless those who have questions on the Commission's
17 questions tell me otherwise that we'll be going for a
18 long time. Otherwise, I would propose that we go
19 right on through with questions on Commission's
20 questions.

21 MS. SANFORD: Commissioner Brown-Bland, that
22 is very agreeable to Aqua and I think you're correct
23 at least from our perspective that there won't be a
24 lot of questions. I am going to ask when it's our

1 turn, and in pursuit of the goal that you just
2 mentioned, if we could be at ease for just two or
3 three minutes, no more than that, for Mr. Bennink and
4 I who are remotely located to confer and make a very
5 efficient use of the questions that we'll have.

6 COMMISSIONER BROWN-BLAND: All right. Does
7 Mr. Grantmyre, do you also understand that you'll be
8 able to get through your questions without the need
9 for us taking a lunch break?

10 MR. GRANTMYRE: Yes. I'll be very brief.

11 COMMISSIONER BROWN-BLAND: All right. And
12 Ms. Townsend, I --

13 MS. TOWNSEND: Yeah. There will be no
14 questions from the Attorney General on this.

15 COMMISSIONER BROWN-BLAND: All right.

16 MS. TOWNSEND: Thank you.

17 COMMISSIONER BROWN-BLAND: I'll take a
18 five-minute recess and we'll be right back on the
19 record. Thank you.

20 (A recess was taken at 12:37 p.m., until 12:44 p.m.)

21 COMMISSIONER BROWN-BLAND: All right. Let's
22 come back on the record. Questions on Commission's
23 questions? Mr. Grantmyre?

24 EXAMINATION BY MR. GRANTMYRE:

1 Q Mr. Thill, you mentioned the names of two
2 employees that work with you. I believe they
3 were Susan Wilburn and Tammy Bernard. Will you
4 agree that the Public Staff never mentioned
5 anything about what they did or by name?

6 A Well, I would agree not by name, but by what they
7 do is everything associated with how we unitize
8 our assets.

9 Q Well, don't they follow the process established
10 by the Company?

11 A Yes, but not as a minion doing the work of
12 others. They have their own code of ethics that
13 they would certainly have to abide by.

14 Q When we're talking about the process of unitizing
15 or in following the Company process, now Shannon
16 Becker is a CPA or was before he dropped his
17 continuing education, but isn't he in charge of
18 the processes that the Company does?

19 A He's in charge of -- yes, everything that North
20 Carolina does here, yes.

21 Q So you would agree then that they follow the
22 processes established by the Company?

23 A I hate to say yes to that because I don't want to
24 imply that it's blindly.

1 Q Okay. With regard to you said depreciation only
2 just came up recently to start in-service date,
3 but wasn't this an issue in the March of 2019
4 WSIC/SSIC filing where the Public Staff alerted
5 the Company that they had the wrong in-service
6 dates and the Public Staff modified the
7 accumulated depreciation?

8 A They modified the in-service date that has the
9 impact of that case, because the contention there
10 was that the unitization happened too late and
11 unitization is what drives the depreciation.

12 Q And did you understand that the Public Staff
13 believes the in-service date drives depreciation?

14 A That's what we heard yesterday.

15 Q And you also heard it in March of 2019, because
16 they adjusted the accumulated depreciation in the
17 WSIC filing, didn't they?

18 A They adjusted the unitization date which then
19 drives the depreciation date, yes.

20 Q And one last question. Do you agree or disagree
21 with Mr. Junis' testimony yesterday that Power
22 Plant account 106 for the completed, "completed
23 not classified" function of PowerPoint (sic) is
24 used by Duke Energy Progress, Duke Energy

1 Carolinas, and Piedmont Natural Gas?

2 A I have no knowledge of that.

3 Q Okay. Well assuming for the point of argument
4 that they do use it, would you agree that if they
5 do use it it's practicable under the Uniform
6 System of Accounts to utilize this function?

7 A It's worth investigating.

8 Q Thank you. That's all I have.

9 COMMISSIONER BROWN-BLAND: All right. Mr.
10 Bennink?

11 MS. SANFORD: And we -- let me say that
12 Mr. Bennink and I conferred, we have eliminated some
13 questions. I was to ask one and he was to ask a
14 couple and I'm dropping mine, so it is with
15 Mr. Bennink.

16 MR. BENNINK: All right. Thank you.

17 EXAMINATION BY MR. BENNINK:

18 Q Going back to some of the questions that
19 Commissioner McKissick asked in terms of Power
20 Plant, and we go back to the Commission's Sub 274
21 Order which was issued in early April of 2009.
22 Mr. Thill, I think you quoted part of that Order,
23 and one of the first -- the main requirement
24 we've been talking about says that Aqua NC shall

1 adopt a consistent, accurate, and complete
2 accounting system for its detailed plant
3 resources -- records that maintains its plant
4 records in compliance with the Uniform System of
5 Accounts. And I believe it is your testimony
6 that that is exactly what Aqua did at that time
7 and has continued to do up to the current date.

8 A Yeah. That -- I do and that is exactly right.
9 You know, part of the contention was that we're
10 missing out on the consistent part. You know,
11 that's one of the requirements within this order,
12 and -- so the Public Staff argument has been that
13 we have not been consistent because we don't
14 always do 30 to 60 days. We don't always do
15 immediate. And as I mentioned earlier, there's
16 reasons for that. There's a lot of stories.

17 If we take a look at, and we
18 talked before and it's in several of the exhibits
19 from Mr. Junis and Mr. Henry with regards to the
20 volume of information we provided to the Public
21 Staff going back to 2015, and those numbers we've
22 got some \$159 million worth of assets in that
23 timeframe. Those kind of break out loosely as
24 about a third each between blankets, WSIC/SSIC

1 eligible items, and everything else. Within
2 those groups, all blankets are unitized in the
3 month of service. Actually in the month of
4 expenditure is better to say. We can't unitize
5 it until we pay it. So we've got a hundred
6 percent of those are in the month of. That's
7 always been the case. So to the extent that
8 there was any expectation that we would wait 60
9 days to unitize those, that's not the case.
10 Those are a hundred percent in the month of.

11 So then we move onto the WSIC/SSIC
12 category. Fifty-seven percent of those are in
13 the month of. Another 22 percent a month later.
14 Nine percent a month later. So that totals up to
15 88 percent are within that 60-day window. Not
16 all immediate. Not all 30 or 60 days later. But
17 88 percent within that two-month period.

18 There are issues that go beyond
19 that. There's obviously 12 percent that go
20 longer than 60 days. There are stories that go
21 with those. Am I saying the process is a hundred
22 percent? It is not. It could always be better.
23 Every process can.

24 There's one other category and

1 that's the all else category. Within that group
2 we're at 49 percent are unitized in the month of.
3 Twenty-one percent of that or 21 percent is the
4 next month. And 10 percent the next month. So
5 now we're at 80 percent. So to the extent that
6 there's a thought that there's this terrible
7 amount of stuff that's just being extended well
8 beyond the system that's already been described,
9 that's just not the reality.

10 Within the two-month window we've
11 got 89 percent of the assets have been unitized
12 and have started depreciating.

13 Q And the ones that have not been -- begun to be
14 depreciated immediately are they what I would
15 call -- refer to as engineering projects by and
16 large?

17 A Some are. Some are not.

18 Q Okay.

19 A Larger projects involve the engineering
20 department.

21 Q But coming out of the Sub 274 case in April of
22 2009, the Company was required to file quarterly
23 reports indicating the steps it was taking to
24 come into compliance with the requirements in

1 that Order, correct?

2 A That is correct.

3 Q And you filed a number of reports, I think it was
4 at least eight or nine, and I think we -- in
5 looking at the Commission's Order the reporting
6 requirement was terminated by the Commission by
7 Order dated July -- June 29th, 2011; is that
8 correct?

9 A That's my understanding.

10 Q So you filed those reports for two years before
11 the reporting requirement was terminated,
12 correct?

13 A That's correct.

14 Q And do you believe that termination of that
15 report or requirement indicates that Public
16 Staff, the Attorney General was part of that rate
17 case too, and even the Commission were apparently
18 satisfied that things were on the right track.

19 A I think that's a fair assumption. That was our
20 assumption.

21 Q And then as far as you know, as far as the
22 evidence indicates, the Company heard no other
23 complaints about its accounting procedures in
24 this specific reference until March of 2019, the

1 WSIC/SSIC case; is that correct?

2 A That is correct.

3 Q Commissioner McKissick asked you about a bright
4 line standard and you addressed that. That's
5 something that can be perhaps worked out through
6 this reporting process that the Public Staff
7 recommended and that the Company has now agreed
8 to; is that correct?

9 A I would think so, yeah. It has to be -- it
10 should be, I believe, a well-thought-out fully
11 considered discussion.

12 Q I mean, you would want to certainly have input
13 into that decision and help maybe negotiate it
14 working with the Public Staff as to what would be
15 the appropriate bright line standard, correct?

16 A Yes. With bright lines it's a lot easier to
17 operate our business.

18 Q And would it be the Company's position that any
19 bright line standard that would be adopted and
20 maybe submitted -- agreed to and then submitted
21 to the Commission for approval should be put in
22 place on a prospective basis only?

23 A Absolutely. Yeah. The idea that we're having
24 some sort of retroactive impact of, you know, a

1 change through when depreciation should occur
2 when we had no notice of such doesn't seem fair
3 at all.

4 Q And would it follow from that if it is possible
5 to come up with a mutually agreeable bright line
6 standard that in effect, and that that should be
7 prospective, then these issues that we've talking
8 about for so long and in such depth in this case
9 really there's no basis to proceed with them from
10 the Company's perspective?

11 A From our perspective, I mean, the Commission
12 hasn't had a chance to rule on it because they
13 haven't heard about it before now. So the idea
14 that we would now be held to a standard that has
15 not been before the Commission, again, would not
16 seem fair.

17 Q Now, Commissioner Hughes asked you some questions
18 about a low user, 2,000 gallons per month, and
19 how they, in effect, how their rates should be
20 designed. If we agree -- I think there's no
21 disagreement on this point that water -- the cost
22 of providing water utility service is pretty
23 much, I believe it's 90 percent fixed, sewer
24 service 80 percent fixed, if you enter into a

1 rate design for a fixed and variable rate for a
2 low user. I mean, how do you balance that the
3 fact that such a high percentage of the cost of
4 providing that service to every user whether
5 they're a high user or a low user is fixed to
6 such a high degree?

7 A Oh, indeed. I mean, that's really where
8 ratemaking comes in. I don't believe there's a
9 single answer for that which is part of the
10 struggle and why this takes so much effort.

11 Q And going back, again, to some of the questions
12 about the revenue reconciliation process, the
13 Company's position is that certainly if you're
14 going to have a pilot you need that process. I
15 think we all understand that.

16 But there is another issue beyond
17 that I think that I want to address with you and
18 that is additional changes in the Company's rate
19 design being proposed by the Public Staff. There
20 is no revenue recovery process in place at this
21 point in time to protect the Company from any
22 deleterious effect of those rate design proposals
23 if adopted from the Commission, is there?

24 A Well, not only is there -- is there nothing to

1 protect us from what would normally occur just as
2 we've seen, you know, conservation occur, but
3 these changes are designed to reduce consumption
4 and yet there's no offset for us.

5 Q That's right. That was the specific testimony in
6 the record from the Public Staff, right, that
7 they were designed to promote conservation?

8 A That's correct.

9 Q That's all I have. Thank you.

10 COMMISSIONER BROWN-BLAND: All right.
11 Before we excuse the witness, I'll hear motions.

12 MR. GRANTMYRE: The Public Staff would move
13 that Public Staff Thill Rebuttal Cross Examination
14 Exhibits 1, 2, and 3 be admitted into evidence.

15 COMMISSIONER BROWN-BLAND: All right.
16 Without objection, that will be allowed.

17 (WHEREUPON, Public Staff Thill
18 Rebuttal Cross Examination
19 Exhibits 1, 2, and 3 are admitted
20 into evidence.)

21 COMMISSIONER BROWN-BLAND: And Mr. Bennink,
22 I see you talking but I think you're on mute.

23 MR. BENNINK: You're right. We would also
24 move into evidence Thill Rebuttal Exhibits 1 through

1 9.

2 COMMISSIONER BROWN-BLAND: All right.
3 Without objection, that motion is allowed and Mr.
4 Thill's exhibits are received into evidence at this
5 time.

6 (WHEREUPON, Thill Rebuttal
7 Exhibits 1 - 4, Revised Thill
8 Rebuttal Exhibit 5, and Thill
9 Rebuttal Exhibits 6 - 9 are
10 admitted into evidence.)

11 COMMISSIONER BROWN-BLAND: Before we break
12 for the day, I'll just say we will resume back on
13 Monday morning at 9:00 a.m. And is there any other
14 housekeeping matters that anybody has? I don't see
15 any. So the Witness Thill is excused. And we thank
16 him for coming back and doing extra duty and I'll --

17 THE WITNESS: Thanks for having me.

18 COMMISSIONER BROWN-BLAND: -- join Mr.
19 Grantmyre's wishes of a good future there. I know
20 you'll be keeping busy.

21 (The witness is excused)

22 COMMISSIONER BROWN-BLAND: That's it. We'll
23 stand in recess for the day and come back Monday
24 morning.

1 (The hearing was adjourned at 1:00 p.m., and set to
2 reconvene on Monday, July 13 at 9:00 a.m.)
3 _____
4

5 C E R T I F I C A T E

6 I, KIM T. MITCHELL, DO HEREBY CERTIFY that
7 the Proceedings in the above-captioned matter were
8 taken before me, that I did report in stenographic
9 shorthand the Proceedings set forth herein, and the
10 foregoing pages are a true and correct transcription
11 to the best of my ability.
12

13 Kim T. Mitchell

14 Kim T. Mitchell
15 Court Reporter II
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