

1 PLACE: Dobbs Building, Raleigh, North Carolina
2 DATE: December 3, 2019
3 DOCKET NO.: W-354, Sub 364
4 TIME IN SESSION: 1:47 P.M. TO 3:38 P.M.
5 BEFORE: Commissioner ToNola D. Brown-Bland, Presiding
6 Chair Charlotte A. Mitchell
7 Commissioner Lyons Gray
8 Commissioner Daniel G. Clodfelter
9 Commissioner Kimberly W. Duffley
10 Commissioner Jeffrey A. Hughes

11
12 IN THE MATTER OF:
13 Application by
14 Carolina Water Service, Inc. of North Carolina,
15 4944 Parkway Plaza Boulevard, Suite 375,
16 Charlotte, North Carolina 28217
17 for Authority to Adjust and Increase Rates for Water
18 and Sewer Utility Service in
19 All of its Service Areas in North Carolina

20
21 VOLUME 9
22
23
24

1 A P P E A R A N C E S:

2 FOR CAROLINA WATER SERVICE, INC. OF NORTH CAROLINA:

3 Jo Anne Sanford, Esq.

4 Sanford Law Office, PLLC

5 Post Office Box 28085

6 Raleigh, North Carolina 27611-8085

7

8 Robert H. Bennink, Esq.

9 Bennink Law Office

10 130 Murphy Drive

11 Cary, North Carolina 27513

12

13 Mark R. Alson, Esq.

14 Ice Miller, LLP

15 One American Square, Suite 2900

16 Indianapolis, Indiana 46282-0200

17

18 FOR COROLLA LIGHT COMMUNITY ASSOCIATION:

19 Brady W. Allen, Esq.

20 The Allen Law Offices, PLLC

21 1514 Glenwood Avenue, Suite 200

22 Raleigh, North Carolina 27608

23

24

1 A P P E A R A N C E S (Cont'd.):
2 FOR THE USING AND CONSUMING PUBLIC:
3 William E. Grantmyre, Esq.
4 Gina Holt, Esq.
5 John Little, Esq.
6 Public Staff
7 North Carolina Utilities Commission
8 4326 Mail Service Center
9 Raleigh, North Carolina 27699-4300

10
11
12
13
14
15
16
17
18
19
20
21
22
23
24

OFFICIAL COPY
Dec 09 2019

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24

T A B L E O F C O N T E N T S
E X A M I N A T I O N S

PAGE

PANEL - WINDLEY E. HENRY, CHARLES JUNIS (Cont'd.)

Examination by Commissioner Clodfelter.....7

Examination by Commissioner Duffley.....8

Examination by Commissioner Brown-Bland.....8

Further Examination by Commissioner Clodfelter.....12

Further Examination by Commissioner Brown-Bland.....14

Examination by Mr. Bennink.....18

LINDSAY DARDEN TESTIMONY.....29

MICHELLE M. BOSWELL TESTIMONY.....49

LYNN FEASEL TESTIMONY.....58

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24

E X A M I N A T I O N S (Cont'd.)

PAGE

PANEL - DANTE M. DESTEFANO, J. BRYCE MENDENHALL

Direct Examination by Ms. Sanford.....91

Cross Examination by Ms. Holt.....150

Redirect Examination by Ms. Sanford.....166

Examination by Chair Mitchell.....179

Examination by Commissioner Hughes.....182

Examination by Commissioner Clodfelter.....185

Examination by Commissioner Brown-Bland.....193

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24

E X H I B I T S

IDENTIFIED/ADMITTED

Public Staff Henry Exhibit I.....--/26

Revised Public Staff Henry Exhibit I.....--/26

Public Staff Junis Exhibit 1.....26/26

Darden Exhibit Numbers 1-5.....28/28

Boswell Exhibit Numbers 1-2.....48/48

Public Staff Feasel Exhibits I-II.....57/57

Revised Public Staff Feasel Exhibits I-II....57/57

DeStefano Supplemental Exhibit 1.....114/198

DeStefano Rebuttal Attachment 1.....198/198

Public Staff DeStefano Cross Examination
Exhibit 1.....153/197

Public Staff DeStefano Cross Examination
Exhibit 2.....164/197

ADMITTED INTO EVIDENCE

Initial Comments of the Public Staff,
Docket W-354, Sub 365, Filed 9/20/19.....89

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

2 COMMISSIONER BROWN-BLAND: All right. We'll
3 come back on the record, and we're at the stage for
4 Commission's questions. Commissioner Clodfelter.

5 PANEL - WINDLEY E. HENRY AND CHARLES JUNIS (Cont'd.)

6 EXAMINATION BY COMMISSIONER CLODFELTER:

7 Q Mr. Junis, I was interested in your discussion
8 about the WSIC and SSIC statutes, and so I want to ask
9 you a couple of questions about that. Let's just assume,
10 and it is an assumption, that the English phrase "in-
11 kind" has the identical meaning to the English phrase
12 "like-kind." We're just going to make that as an
13 assumption.

14 A (Junis) I'll agree to that. All right.

15 Q Yeah. Whether it's true or not is -- will be
16 determined by the Commission. But let's just assume that
17 in-kind and like-kind mean the same thing. Now I want to
18 ask you about a couple other English phrases. Let's take
19 the phrase "like-kind" and the phrase "like-kind and
20 quality." Do they mean the same thing?

21 A Sorry. Can you repeat that last part?

22 Q Like-kind and quality. Do they mean the same
23 thing as like-kind?

24 A I would say not exactly.

1 Q Yeah. And what about the phrase "like-kind and
2 grade"? Does that mean the same thing as the English
3 phrase like-kind?

4 A I'd say not.

5 Q Yeah.

6 COMMISSIONER CLODFELTER: That's all I have.
7 Thank you.

8 WITNESS JUNIS: Okay.

9 COMMISSIONER BROWN-BLAND: Commissioner
10 Duffley?

11 EXAMINATION BY COMMISSIONER DUFFLEY:

12 Q With respect to what Commissioner Clodfelter
13 just asked, I guess I'd like to know the purpose behind
14 the Public Staff's interpretation of like-kind or in-
15 kind, not equating traditional meters with AMR meters.

16 A (Junis) So I think a big part of that
17 interpretation is the cost difference between the two, so
18 I mean it's pretty general in the statute that it just
19 says "installed as in-kind replacements," and so cost is
20 a major factor, and then obviously they are -- have
21 different functionalities, and so that's why we -- at
22 least as it stands, the interpretation is that those are
23 not in-kind to each other.

24 EXAMINATION BY COMMISSIONER BROWN-BLAND:

1 Q I think my first questions go mainly to Mr.
2 Henry, but feel free, Mr. Junis, if you have answers. So
3 this is regarding the level of storm expenses in the base
4 rates.

5 A (Henry) Yes.

6 Q And as we know, the Company has agreed to
7 rescind its request on the storm reserve fund and also
8 agreed to Public Staff's position on storm expense, and
9 you discussed that a little bit with Mr. Bennink. The
10 Public Staff adjusted the number of years. To calculate
11 the average storm cost they used three years and -- the
12 Company used three years and the Public Staff recommended
13 a 10-year period. The question is, has a normalized
14 level of storm cost been used by the Company or
15 recommended by the parties in any past rate case?

16 A No. We've always used actual cost and
17 amortized them over years.

18 Q So the amount of storm cost has been based on a
19 specific recent storm in the past --

20 A Yes.

21 Q -- and amortized over a period of years?

22 A Yes.

23 Q And so is the normalized way of doing it a new
24 way of doing it?

1 A It is new with the water and sewer industry.
2 It's not with the electric industry.

3 Q All right. And let's see. Concerning the
4 deferral of Hurricane Florence impacts, as requested in
5 Sub 363, Witness DeStefano addressed the application of
6 Hurricane Florence insurance proceeds in his rebuttal
7 testimony. The Public Staff only recommended the
8 recovery of O&M expenses in its comments. Did the
9 parties reach a resolution regarding the disputed issues?

10 A Yes, we have.

11 Q And that includes the unresolved issues of
12 depreciation, carrying cost, and loss of revenues, you
13 came to --

14 A Yes.

15 Q Okay. How were they resolved, those issues?

16 A They agree with our recommendation.

17 Q Okay. And could you identify the types and the
18 amounts of Hurricane Florence related impacts included in
19 the Public Staff's revised exhibits?

20 A I don't have those amounts. I could give them
21 to you as a late-filed exhibit. I would have to refer to
22 Ms. Feasel for those numbers.

23 Q All right. We would request a late-filed
24 exhibit on the amounts and the kinds of the Hurricane

1 Florence-related impacts, and where you could, refer to
2 the schedules in the Public Staff's testimony.

3 A Okay.

4 Q Also, would you provide a late-filed exhibit
5 showing your calculation of the 24 basis points' effect
6 on ROE due to not deferring the AMR meter projects, as
7 requested by the Company?

8 A Yes. I have those schedules available.

9 Q And regarding the calculation of the 24 basis
10 point effect of the AMR meter deferral, is that the ROE
11 effect on the total Company's operations or the ROE
12 effect on the specific Water Rate Division?

13 A Just the Water Rate Division.

14 Q All right. And the Company's calculated ROE
15 effect presented in its comments in the 365 docket, they
16 appear to be on a total Company basis. Is that how you
17 read it?

18 A Yes.

19 Q And in the Public Staff's opinion should the
20 ROE impact be calculated on the total versus -- or on the
21 single rate division?

22 A Just the single rate division because the AMR
23 meters, like I stated before, will not be recovered from
24 the Uniform Sewer customers, nor the customers in

1 Bradfield Farms, Fairfield Harbour, and Treasure Cove.

2 Q All right. Since your 24 basis points is not
3 on the total Company, could you provide a late-filed
4 exhibit showing the ROE impact on the total Company
5 basis?

6 A Yes, I can.

7 Q All right. We would request that you do that,
8 please. We've got a lot of late-filed exhibits for you,
9 Mr. Henry. Would you provide a late-filed exhibit
10 showing the calculation of the Public Staff's deferral
11 amount of \$64,736 for AMR meters?

12 A I have that schedule available as well.

13 Q And a late-filed exhibit from you showing the
14 calculation of the 10-year storm expense that the parties
15 agreed to?

16 A We can provide that schedule as well.

17 COMMISSIONER BROWN-BLAND: And just one more
18 second before I let you go, Mr. Henry. Commissioner
19 Clodfelter.

20 FURTHER EXAMINATION BY COMMISSIONER CLODFELTER:

21 Q Mr. Henry, since everybody is piling on you for
22 late-filed exhibits, I'll try one out. I was going to
23 ask Mr. DeStefano for it, but if you've got the
24 information for it, and you're on the stand now, and I

1 don't have to ask him for it. So I've got your Exhibit
2 I, Schedule 1 Revised, which is titled A Calculation of
3 Deferred Post-In-Service Depreciation and Financing Cost
4 Relating to Major New Projects, and it's really an
5 analysis. What's of interest to me is line 12, is the
6 revenue requirement related to the Connestee Falls
7 wastewater treatment plant and the Nags Head wastewater
8 treatment plant. You look like you have that in front of
9 you. Do you?

10 A I do.

11 Q Let me tell you what I'm interested in. If you
12 can give it to me, I'll take it from you. If I can't get
13 it from you, I'll get it from Mr. DeStefano. I'm just
14 curious, is if you were to go back and reconstruct what
15 this chart would look like, what this exhibit would look
16 like, if on line number 1, instead of the plant additions
17 you took the original cost of the plants that were
18 replaced by these new ones and then you recalculated down
19 as if you were doing it in Sub 360, and you calculated
20 down your accumulated depreciation off of that original
21 cost and on down, use the rate of return approved in that
22 case, and what would line 12 have looked like for the
23 annual revenue requirement on those plants that got
24 replaced? Do you understand what I'm asking?

1 A I understand what --

2 Q Yeah.

3 A -- you're saying, but I just --

4 Q Do you have sufficient information to do that?

5 A I do not.

6 Q Yeah. I --

7 A I do not have that original cost of those
8 things that were --

9 Q I had a hunch you might not, but since I've
10 asked you the question it will probably save us some time
11 because Mr. DeStefano heard me ask it and knows exactly
12 what exhibit I'm going to ask him for --

13 A Okay.

14 Q -- so we did save some time, anyway.

15 A Okay.

16 COMMISSIONER CLODFELTER: Thank you.

17 FURTHER EXAMINATION BY COMMISSIONER BROWN-BLAND:

18 Q Mr. Junis, this is just as a double check. So
19 you heard earlier Mr. Mendenhall's answer to whether the
20 AMR meter installation in the mountainous areas somehow
21 -- something about the mountainous areas would cause that
22 installation to be more expensive than elsewhere. And
23 basically he indicated, as I interpreted it, that it's
24 not that great a difference and he would expect to see

1 future meter installations coming in in the same general
2 price range. Do you agree with that or do you note some
3 differences or reasons for discrepancy in meter prices
4 and installations across the Company's various
5 territories?

6 A (Junis) I would say it's probably going to be
7 in the ballpark, I would hope. And if you replace meters
8 in a different area outside of mountainous regions, say,
9 in Charlotte, the greater Charlotte area, hopefully you
10 would have more competition in terms of contractors to
11 perhaps help reduce pricing. Also, I think it's common
12 practice in the mountains that sometimes those meters are
13 deeper, depending on the terrain and topography you have
14 and difference of where the main is and how you get that
15 service line to the home. And it does depend a lot on
16 the developer, how they install the -- and the quality of
17 that original installation, or has that service line been
18 replaced, have those mains been replaced. There's a lot
19 of factors that go into it, but I would say it's probably
20 going to be in the ballpark. Now, I know one thing that
21 the Company is trying to do better about is using the
22 financial might, now that you have Corix involved, to get
23 lower pricing on the actual equipment because they do
24 have some water and sewer utilities outside of the

1 Carolina Water scope, so hopefully you'd have some buying
2 power there to reduce the price.

3 Q Mr. Junis, you spoke earlier of the Company's
4 prior meter replacement mostly being onesie-twosies and
5 maybe not a systematic plan for meter replacement. Is
6 that something that the Public Staff, prior to the filing
7 of this rate case, has discussed with this Company?

8 A Yes. I think the Public Staff in general with
9 any of the companies has tried to promote that you
10 probably want a system basis. There's efficiency. It's
11 actually in our comments in the Sub 365 docket, talking
12 about there's efficiencies to gain if you can have a
13 contractor go from house to house or premise to premise
14 right next to each other, as opposed to just onesies and
15 twosies.

16 Q Over the years of review of this Company's
17 actions and activities has the Public Staff called to
18 their attention that they did not have such a plan?

19 A I think that was mentioned. I mean, we have
20 met with Carolina Water on multiple occasions before they
21 got started with this AMR meter replacement program. We
22 voiced interest in evaluating AMI. It's my understanding
23 that AMI was not suitable in the mountainous regions
24 because of signal propagation, that you run into issues

1 because of the topography.

2 Q Let's take AMI/AMR advanced technologies, let's
3 take them out of the picture and just say a reg--- some
4 sort of regular, periodic replacement program.

5 A So, I mean --

6 Q Has that been discussed with this Company and,
7 for that matter, with the other water utilities that you
8 review?

9 A Yes. I'm sorry. I didn't mean to try to cut
10 you off there. Yes, because we asked about, well, how
11 old are your meters, because then you get into retirement
12 of infrastructure and how you're going to handle that.
13 So those questions prompted, well, how are you going to
14 replace meters going forward, and I think we've always
15 been supportive of a systematic program to address the
16 problem.

17 Q All right. Thank you.

18 COMMISSIONER BROWN-BLAND: Are there other
19 Commission questions?

20 (No response.)

21 COMMISSIONER BROWN-BLAND: All right.
22 Questions on Commission's questions?

23 MR. BENNINK: Yes. I have a few.

24 COMMISSIONER BROWN-BLAND: Mr. Bennink.

1 EXAMINATION BY MR. BENNINK:

2 Q Mr. Junis, I want to take a look based on
3 questions about what is eligible for recovery through the
4 WSIC/SSIC statute. And there are two categories of cost
5 which use the in-kind replacement language, are there
6 not? One water, one sewer.

7 A (Junis) Yes. I believe you are correct. I
8 think (c)(1) --

9 Q (c)(1).

10 A and (d)(4).

11 Q And would you read (c)(1) into the record,
12 please, if you have it in front of you? If not, I can.

13 A Yes, sir. So "distribution mains, valves,
14 utility service lines, including meter boxes and
15 appurtenances, meters, and hydrants installed as in-kind
16 replacements."

17 Q And so based on the in-kind replacement
18 language, in particular regarding meters, the Public
19 Staff's position is that AMR meters would not be an in-
20 kind replacement eligible for WSIC treatment, correct?

21 A That's correct.

22 Q And, also, isn't it the Public Staff's position
23 that, for instance, if Carolina Water Service, during its
24 normal course of business, replaces, let's say, 1,000

1 meters hypothetically, traditional meters -- with
2 traditional meters during the year, but they are
3 dispersed throughout the territory, that's not eligible
4 for WSIC treatment, either, is it?

5 A So I believe it has been interpreted that it
6 should be planned projects, that this should not become
7 the Company's O&M budget just recovered through another
8 mechanism of rates. So I think you're correct in that if
9 it's one here, one over there, and then you're just
10 pooling together a significant chunk of time, that that
11 would not be eligible.

12 Q So the Public Staff's position is that it has
13 to be a project, replacement of all meters, say, in an
14 individual service area?

15 A It should be a project.

16 Q Even if it's in-kind?

17 A Yes, sir.

18 Q And so in the WSIC/SSIC filing that we've heard
19 a little bit of testimony about, where the Company made
20 some proposals that the Public Staff didn't disagree with
21 and it resulted in your recommendation and the Commission
22 Order being -- offering significantly less cost recovery,
23 to your recollection, did that involve replacement of
24 dispersed meters, some significant part of that?

1 A I don't -- I mean, I consulted on that because
2 I don't typically handle Carolina Water issues, so I
3 don't recall exactly. I know there was an issue of not
4 projects, that there was a lot of kind of single-issue
5 type things that were addressed and the Company was
6 seeking cost recovery for.

7 Q And do you know -- do you remember, would that
8 have fallen primarily in this section that we've just
9 talked about?

10 A Based on my recollection, yes.

11 Q So unless any -- anything that's mentioned in
12 subsection (c)(1) that is not part of a so-called project
13 would not qualify for recovery in a WSIC proceeding?

14 A That is the Public Staff's interpretation.

15 Q And isn't it true, if my recollection is
16 correct, that at one point in time I know Aqua did get
17 some cost recovery for AMR meters, but the Public Staff
18 took the position that the only thing that -- even
19 though, I guess, you would have still said it was not an
20 in-kind replacement at that time, the only recovery that
21 should be allowed would be the cost of a -- the
22 equivalent cost of a traditional meter?

23 A That's correct.

24 Q And what changed that position? That's no

1 longer done, is it?

2 A I don't have -- I don't know the answer to
3 that. I just don't think that anybody has asked for
4 that, is the case, but --

5 Q So in --

6 A -- I'm not sure.

7 Q Okay. So in your opinion, if Carolina Water
8 Service came in -- had come in in this case and said at
9 least give us the -- in a WSIC case give us the cost of a
10 traditional meter, even though those are AMRs, would the
11 Public Staff gone along with that or do you think it
12 would have opposed it?

13 A I mean, we look at it on a case-by-case basis,
14 but I think we would have at least entertained the idea.
15 I mean, I think possibly. It then becomes a question of
16 -- no. I think we would entertain it, I think, is the
17 appropriate answer.

18 Q And then looking at the sewer section, (d)(4),
19 can you read that into the record, please?

20 A Yes, sir. "Pumps, motors, blowers, and other
21 mechanical equipment installed as in-kind replacements
22 for customers."

23 Q So does that section, from the Public Staff's
24 perspective, also require anything from which recovery is

1 sought to be part of a project?

2 A Yes. In general, it should be a project.

3 Q So if the Company came in and tried to put in
4 15 pumps and 15 motors dispersed around its service
5 territory, the Public Staff would oppose that recovery as
6 part of a WSIC proceeding?

7 A You could have a project that is dispersed
8 across a geographic area, but it was planned so then you
9 could potentially get economies of scale purchasing
10 power, so, okay, we're going to buy 20 pumps instead of
11 one at a time, and I think that may be eligible,
12 depending on how it's framed and is it planned and did
13 the equipment need replaced or was nearing replacement.

14 Q And going back to the question I raised in
15 terms of if the Company had sought WSIC approval for AMR
16 meters, but only requested the cost of a traditional
17 meter, would that be consistent with your comments? I
18 mean, you say it's the Public Staff's position that meter
19 replacement of any kind (AMR, AMI, traditional, et
20 cetera) is not an extraordinary or unusual project, but
21 should be routine as part of a properly planned and
22 managed meter replacement program. Do you think under
23 that language you would have entertained cost recovery
24 for at the -- at the traditional meter level?

1 A Through the WSIC?

2 Q Yes.

3 A Yeah. I think a lot of the items that are in
4 the WSIC/SSIC should be part of normal course of business
5 and should be addressed. I think it was recognized that
6 some of those things were not being regularly addressed
7 or were only being addressed as close to or as part of a
8 rate case, and so what I think the intent was, to do this
9 as it's needed as opposed to putting it off based on
10 recovery in a rate case.

11 Q Do you have any evidence that the Company did
12 that, that they would not replace a meter or some piece
13 of equipment at the time, but wait and time it in
14 conjunction with a rate case?

15 A Not necessarily specific to meters, but, again,
16 I think we discussed this about secondary water quality
17 projects that were going unaddressed until there was this
18 incident that you --

19 Q But that's not an in-kind replacement. We're
20 talking about in-kind replacements.

21 A Correct. I was just expanding this to the full
22 WSIC and SSIC.

23 Q Right, but we've been talking about in-kind
24 replacements, water and sewer.

1 A You could, for example, put off the replacement
2 of distribution mains. That could artificially increase
3 purchased water, if it's a purchased water system, so
4 then you have a high expense. And then, say, if the
5 Company waits to do that project until very close to a
6 rate case, you have artificially high purchased water
7 expense and you're recovering the capital piece
8 associated with it, and we have seen evidence of that
9 happening before.

10 Q You've seen that happen?

11 A And we suggest an adjustment to lower the
12 purchased water.

13 Q And you're saying that even though that would
14 qualify for WSIC treatment, you've seen evidence of that?

15 A I've seen it happen before the WSIC and kind of
16 leading up to, but it's gotten better.

17 Q You say in -- you said in the Initial Comments
18 in the Sub 350 docket, 365 docket, "It is not unusual for
19 a water and sewer utility to undertake a meter
20 replacement project that includes an entire subdivision
21 or service area because it promotes efficiency of time
22 and cost when replacing a number of meters having similar
23 ages due to being installed within a similar time
24 period." And that's exactly what the Company did in this

1 case with its AMR meter projects, right?

2 A So certainly so, and we're not arguing about
3 the prudence or reasonableness of the cost. I think
4 we've addressed that numerous times.

5 MR. BENNINK: That's all I have. Thank you.

6 COMMISSIONER BROWN-BLAND: Questions on
7 Commission's questions?

8 MS. HOLT: No questions.

9 COMMISSIONER BROWN-BLAND: All right. And that
10 seems to complete it for this panel. Do you want to --

11 MS. HOLT: I'd like to --

12 COMMISSIONER BROWN-BLAND: -- move your
13 exhibits?

14 MS. HOLT: It just occurred to me or was
15 brought to my attention that I did not move the admission
16 or the acceptance of Mr. Junis' Exhibit 1 for
17 identification, and I'd like to do that, and also request
18 that it be admitted into evidence, and that the -- Mr.
19 Henry's Exhibit I be admitted into evidence, his Revised
20 Exhibit I be admitted into evidence, and Settlement
21 Exhibits I and II be admitted into evidence.

22 COMMISSIONER BROWN-BLAND: All right. All
23 those motions will be allowed, and those exhibits will be
24 received into evidence, Mr. Junis' identified as it was

1 when prefiled.

2 (Whereupon, Public Staff Junis Exhibit 1
3 was identified as premarked and admitted
4 into evidence.)

5 (Whereupon, Public Staff Henry Exhibit I
6 and Revised Public Staff Henry Exhibit I
7 were admitted into evidence.)

8 (Whereupon, Settlement Exhibits I and II
9 were admitted into evidence in Volume 7.)

10 MR. BENNINK: Commissioner Brown-Bland, the
11 Company has one other request. The Commission has
12 requested a number of late-filed exhibits from this
13 Public Staff panel. We would like to reserve the
14 opportunity to file a response to those exhibits, if
15 necessary.

16 COMMISSIONER BROWN-BLAND: That would be
17 appropriate. All right. This panel is excused.

18 WITNESS JUNIS: Thank you very much.

19 (Witnesses excused.)

20 MS. HOLT: Question, is this the appropriate
21 time to move in the testimony of the excused witnesses?

22 COMMISSIONER BROWN-BLAND: If you're ready to
23 do that --

24 MS. HOLT: I'm ready.

1 COMMISSIONER BROWN-BLAND: All right.

2 MS. HOLT: The Public Staff requests that the
3 testimony of Lindsay Darden, consisting of 19 pages, be
4 copied into the record as if given orally from the stand,
5 and that her five exhibits be identified as premarked and
6 entered into evidence; that the testimony of Michelle
7 Boswell, consisting of six pages, be copied into the
8 record as if give orally from the stand, and that her two
9 exhibits be identified as premarked and admitted into
10 evidence; that the testimony of Lynn Feasel, consisting
11 of 31 pages, be copied into the record as if given orally
12 from the stand, and that her two exhibits be identified
13 as premarked and admitted into evidence, that the revised
14 exhibits of Lynn Feasel filed on November 18th be
15 identified as marked and admitted into evidence.

16 COMMISSIONER BROWN-BLAND: All right. That
17 motion will be allowed. The testimonies will come in and
18 be treated as if given orally from the witness stand, the
19 exhibits will be identified as they were when prefiled,
20 and all received into evidence at this time.

21 (Whereupon, the prefiled testimony of
22 Lindsay Darden was copied into the
23 record as if given orally from the
24 stand.)

1 (Whereupon, Darden Exhibit Numbers
2 1 through 5 were identified as
3 premarked and admitted into
4 evidence.)

5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24

OFFICIAL COPY
Dec 09 2019

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. W-354, SUB 364

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

TESTIMONY OF
 LINDSAY DARDEN
 PUBLIC STAFF – NORTH
 CAROLINA UTILITIES
 COMMISSION

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

**TESTIMONY OF LINDSAY DARDEN
ON BEHALF OF THE PUBLIC STAFF
NORTH CAROLINA UTILITIES COMMISSION**

NOVEMBER 4, 2019

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

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

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

10 A. I graduated from North Carolina State University, earning a Bachelor
11 of Science Degree in Civil Engineering. I am a licensed Professional
12 Engineer in North Carolina. I am also certified as a B-Well Operator
13 by the North Carolina Water Treatment Facility Operators Certification
14 Board. While employed by the Public Staff, I have presented
15 recommendations in utility rate case proceedings, new franchise and
16 transfer applications, and other matters relating to water, wastewater,
17 and telephone utility regulation before the Commission. I worked for

1 the North Carolina Department of Environmental Quality (DEQ), Public
2 Water Supply Section, for four years prior to joining the Public Staff in
3 December 2016. Prior to working with DEQ, I worked for Smith
4 Gardner, an engineering consulting firm.

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

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

13 **Q. PLEASE DESCRIBE THE SCOPE OF YOUR INVESTIGATION IN**
14 **THIS CASE.**

15 A. On June 28, 2019, Carolina Water Service, Inc. of North Carolina
16 (CWSNC or Company) filed an application with the Commission
17 seeking authority to increase its rates for providing water and
18 wastewater utility service in all of its service areas in North Carolina.
19 My areas of investigation in this proceeding have been the review of
20 Company records, assisting in the review of customer complaints and
21 Department of Environmental Quality (DEQ) records, and conducting

1 several site inspections. I have also assisted the Public Staff
2 Accounting Division in the review of the following expenses: Testing,
3 Purchased Power, Chemicals, Meter Reading, Maintenance and
4 Repair, Sludge Hauling, Purchased Water, and Purchased Sewer
5 Treatment.

6 **Q. HAVE YOU INSPECTED CWSNC'S WATER AND SEWER**
7 **SYSTEMS?**

8 A. Yes, on September 6, 2019, I inspected Well No. 7 at the Danby well
9 water system in Mecklenburg County. The Danby well water system
10 currently consists of seven active wells, an interconnection with
11 Lancaster County, and elevated and hydropneumatic storage. The
12 development project for Well No. 7 cost approximately \$89,200. Well
13 No. 7 is approved for 87 gallons per minute pumping capacity, a
14 10,000-gallon hydropneumatic tank, and chlorine treatment. On
15 inspection, the construction of the well house and the
16 hydropneumatic tank was completed, and the new well testing was
17 also completed. The only remaining portion of the project that was
18 remaining to be completed was the power to be connected by Duke
19 Energy. In June 2019, CWSNC had completed all other construction
20 beside the power connection and expected Duke Energy to complete
21 the connection work by the date of the evidentiary hearing,

1 December 2, 2019. Currently, Well No. 7 is supplied with generator
2 power.

3 Additionally, on September 11, 2019, I inspected the wastewater
4 treatment plant (WWTP) at The Village of Nags Head, in Dare
5 County. On January 8, 2019, the Company received a permit major
6 modification (Permit No. WQ0000910) to complete the conversion of
7 the existing WWTP to a 400,000 gallons per day (GPD) new
8 membrane bioreactor (MBR) WWTP, which costs approximately
9 \$6.5 million. A fine stainless steel influent screen and pump station
10 were installed. The five existing basins were converted to an
11 equalization basin, emergency residuals storage basin, pre-anoxic
12 basin, aeration basin, and post-anoxic basin. Two membrane
13 filtration units were installed. A new building was constructed for the
14 membrane equipment, electrical panels, and aeration blowers.
15 Electrical upgrades consisting of a new generator and transfer switch
16 and the site being converted to a single utility service was completed.
17 Demolition of existing equipment was necessary, while the use of
18 existing equipment was also utilized, such as the basins and the
19 spray fields. The WWTP improvements were primarily to address
20 water quality concerns raised by the Department of Environmental
21 Quality (DEQ). The WWTP serves primarily seasonal customers,
22 and the area is not expected to have significant growth in the near

1 future. All construction was complete, and the new WWTP was in
2 operation on the date of the site visit.

3 On October 9, 2019, I inspected the WWTP at Connestee Falls in
4 Transylvania County. I was accompanied by Gina Holt, Public Staff
5 Attorney. The Company constructed a new 0.36 million gallons per
6 day (MGD) sequencing batch reactor (SBR) WWTP and
7 decommissioned the existing WWTP under Permit NC004295. The
8 project cost approximately \$7.1 million. The new WWTP consists of
9 influent screening, extended aeration activated sludge basin, settling
10 basin, effluent filtration basin, UV disinfection, aerobic sludge
11 digestion, and effluent flow metering. New buildings to protect the
12 equipment and serve as storage for the surrounding service areas
13 were constructed. The existing WWTP was decommissioned and
14 replaced due to old age and numerous service issues. The
15 demolition of the entire existing WWTP was complete before the date
16 of the site visit, and the new WWTP was in operation. The
17 decommissioning of the existing WWTP and start-up of the new
18 WWTP were staged so that service was not affected for the
19 customers.

1 Q. HAVE YOU RECOMMENDED ANY ADJUSTMENTS TO
2 EXPENSES RELATED TO WATER AND WASTEWATER
3 OPERATIONS?

4 A. Yes, I have provided Public Staff Accountant Lynn Feasel with
5 recommendations for adjustments to testing expenses, purchased
6 power expenses, chemical expenses, maintenance, and repair
7 expenses, which includes other maintenance expenses and sludge
8 hauling expenses, purchased water expenses, and purchased sewer
9 treatment expenses.

10 **TESTING EXPENSES**

11 The Public Staff has reviewed CWSNC's water and sewer testing
12 expenses. The Public Staff's recommendation for testing expenses
13 reflects the most current testing requirements, changes to the
14 number or frequency of each test, and current testing costs,
15 represented over the required frequency (monthly, annually, and
16 every three, six, or nine years) for each test under the Safe Drinking
17 Water Act and CWSNC's wastewater permits.

18 The Company calculated the testing expense as the Public Staff
19 traditionally has, using current testing schedules going forward,
20 amortizing the expense over the number of years corresponding to the
21 testing frequencies for the various tests, and using the current unit

1 costs for the tests. CWSNC provided the current testing
2 requirements for each system and current invoices and/or price lists
3 from all testing laboratories. In response to Engineering Data
4 Request (EDR) No. 39, CWSNC provided updated costs for any test
5 that had changed since the test year. The updated testing costs
6 were incorporated into the testing requirement schedules to project
7 an accurate total cost of testing for the future.

8 The total testing expense recommendations detailed below include
9 the testing amounts that are based on the most current testing pricing
10 available and the most current compliance schedule for every
11 system and also includes Equipment and Chemical costs associated
12 with testing. For CWSNC's uniform rate systems, the Public Staff
13 recommends testing expenses of \$202,228 for water operations and
14 \$308,671 for sewer operations. For Treasure Cove, Bradfield Farms,
15 and Fairfield Harbour (TC/BF/FH) water operations, the Public Staff
16 recommends testing expenses of \$8,314, and for Bradfield Farms
17 and Fairfield Harbour (BF/FH) sewer operations, the Public Staff
18 recommends testing expenses of \$25,219.

19 The calculations for the testing costs (not including Equipment and
20 Chemical testing expenses) are shown in **Darden Exhibits No. 1**
21 **and No. 2.**

1 **PURCHASED POWER EXPENSES**

2 The Public Staff has reviewed CWSNC's purchased power expenses
3 for both water and sewer operations. CWSNC's purchased power
4 records, and CWSNC's total per books purchased power expenses
5 appear to be complete and acceptable, with the exception of the pro
6 forma adjustment.

7 CWSNC included a 5.96% increase for the Dominion power expense
8 and referenced the pending Dominion rate case, E-22, Sub 562. The
9 Dominion rate case is still pending therefore, the Public Staff
10 recommends excluding the pro forma adjustment to the Dominion
11 power expense since the increase is not known and measurable.

12 The Public Staff finds the pro forma adjustment of a 3.66% increase
13 to the French Broad Electric Corp. test year amount to be acceptable.

14 CWSNC provided Duke Energy Progress and Duke Energy Carolina
15 pro forma adjustments based on news article references. The
16 Company clarified in their response to EDR No. 24 that the majority,
17 326 out of a total of 353 accounts, of the Duke Energy Progress and
18 Duke Energy Carolina accounts are the Small General Service
19 (SGS) rate schedule category or customer classification. The other
20 27 accounts are one of the following rate schedule categories: ALS,
21 MGS, OL – Outdoor Lighting, OPT-V TOU Secondary Small Gen,

1 SGS-TOU, and OPT-Optional Power Srv TOU. Due to the
2 complexity of comparing different rate schedule categories, different
3 riders for each rate schedule, and varying effective dates for rate
4 adjustments and riders, the Public Staff requested, in EDR No. 67,
5 the total kilowatt-hour (kWh) billing data for Duke Energy Progress
6 and Duke Energy Carolina accounts to accurately compare the
7 changes in the cost per kWh. CWSNC responded to EDR No. 67,
8 stating that the Company is unable to timely prepare the response to
9 this request, as the response required manual review and data entry
10 of approximately 6,000 invoices since the kWh usage is not tracked
11 by the Company.

12 Relying on information that is currently available, the Public Staff
13 accepts the Company's pro forma adjustment for Duke Energy
14 Carolinas and Duke Energy Progress purchased power expense,
15 however, this circumstantial acceptance is not to be precedent-
16 setting for future adjustments. The Public Staff recommends that the
17 Company begins and continues to track the kWh for all accounts in
18 a manner that is easily accessible and practicable for review.
19 Tracking the power usage not only helps to project accurate rate
20 fluctuations but also helps to discover potential operational issues
21 concerning power usage.

1 For CWSNC's uniform rate systems, the Public Staff recommends
2 purchased power expenses of \$1,048,858 for water operations and
3 \$838,308 for sewer operations. Furthermore, the Public Staff
4 recommends purchased power expenses of \$69,724 for TC/BF/FH
5 water operations and \$146,154 for BF/FH sewer operations.

6 CHEMICALS EXPENSE

7 The Public Staff reviewed CWSNC's expenses for chemicals for both
8 its water and sewer operations. The review of CWSNC's chemical
9 adjustments revealed a discrepancy between CWSNC's Appendix 3,
10 Schedule B, and its Schedules supporting the pro forma adjustment.
11 The discrepancy was discussed with the Company, and the formula
12 was corrected. The correction was reflected in the Updated Schedules
13 provided by CWSNC.

14 The chemical expense amounts were adjusted by CWSNC to reflect
15 the latest pricing provided by the chemical vendor, WaterGuard. The
16 price changes were verified by the Public Staff.

17 The Company also included a pro forma adjustment to allocate for
18 Micro-C chemical treatment at the Nags Head WWTP. In response to
19 EDR No. 72, the Company stated that upon further review of the
20 membrane type, built-in backflushing cycle, and flow expectations at
21 the new Nags Head WWTP, the Company does not anticipate a

1 change from its Test Year disinfection treatment method of Chlorine.
2 Due to this clarification and re-evaluation, the Public Staff removed the
3 pro forma adjustment from the Uniform Sewer amount from the Other
4 Treatment Chemicals account.

5 The chemical expense recommendations detailed below include the
6 expense amount for Chlorine, Odor Control Chemicals, and Other
7 Treatment Chemicals. For CWSNC's uniform rate systems, the
8 Public Staff recommends chemical expenses of \$311,580 for water
9 operations and \$318,617 for sewer operations. For TC/BF/FH water
10 operations, the Public Staff recommends chemical expenses of
11 \$44,189, and for BF/FH sewer operations, the Public Staff
12 recommends chemical expenses of \$19,210.

13 **METER READING EXPENSE**

14 The Public Staff reviewed CWSNC's expenses for meter reading for
15 its water operations. The Company included an adjustment removing
16 the meter reading expense for Fairfield Mountain and Connestee Falls
17 water systems. The meter reading expenses for these water systems
18 were removed due to the installation of AMR meters that do not require
19 an operator to read each meter individually. The Public Staff agrees
20 with the Company's expenses of \$175,422 for uniform rate water
21 operations and \$30,753 for TC/BF/FH water operations.

1 **MAINTENANCE AND REPAIR EXPENSE**

2 The Public Staff reviewed CWSNC's expenses for Maintenance and
3 Repair (M&R) expenses for its water and sewer operations. The
4 Company provided requested invoices and verification for expenses in
5 the following M&R account categories: Maintenance Supplies,
6 Maintenance Repairs, Main Breaks, Electric Equipment Repair,
7 Permits, Other Maintenance Expenses, Sewer Rodding, and Sludge
8 Hauling. The Public Staff agrees with the Company's expenses for
9 Maintenance Supplies, Maintenance Repairs, Main Breaks, Electric
10 Equipment Repair, Permits, and Sewer Rodding. The Public Staff
11 recommends adjustments to the Other Maintenance Expense for
12 Uniform water operations and Sludge Hauling for Uniform and BF/FH
13 sewer operations.

14 Incorporating the Public Staff's recommended adjustments for Other
15 Maintenance Expense and Sludge Hauling that are detailed below, for
16 CWSNC's uniform rate systems, the Public Staff recommends M&R
17 expenses of \$936,594 for water operations and \$1,721,565 for sewer
18 operations. For TC/BF/FH water operations, the Public Staff
19 recommends M&R expenses of \$69,588, and for BF/FH sewer
20 operations, the Public Staff recommends M&R expenses of
21 \$216,983.

1 CWSNC confirmed that there were no operational changes that
2 occurred for sludge hauling in any system since the last rate case,
3 W-354, Sub 360. The Company did clarify that operational changes
4 may be necessary in the future for the Nags Head WWTP due to the
5 improvements at the plant.

6 CWSNC clarified in their response to EDR No. 60 that the sludge
7 hauling expense for Sapphire Valley WWTP included sewer pond
8 cleaning expense for three ponds during the test year. CWSNC
9 stated that each pond is expected to be cleaned every two to three
10 years in the normal course of operations. The total cost of the pond
11 cleaning during the test year for three ponds was \$31,050. The
12 Public Staff annualized this cost over 2.5 years based on CWSNC's
13 stated projected cleaning schedule. With the annualized pond
14 cleaning expense, Sapphire Valley WWTP sludge expense during
15 the Test Year was reduced from \$39,506 to \$20,876.

16 For CWSNC's uniform sewer operations, the Public Staff
17 recommends sludge hauling expenses of \$487,086. For BF/FH
18 sewer operations, the Public Staff recommends sludge hauling
19 expenses of \$68,749.

20 The calculations for sludge hauling are shown in **Darden Exhibit No.**
21 **3.**

1 updated to the October 1, 2019 rates that the Company provided. The
 2 Public Staff's purchased water expense recommendation was
 3 calculated using the total gallons purchased (adjusted for water loss if
 4 applicable) from the invoices provided and the most current rates to
 5 project an annualized cost.

6 Water loss adjustments were made to the following systems: Zemosa
 7 Acres, Whispering Pines, Carolina Forest, Woodrun, and High Vista
 8 Estates. The Public Staff recommends an allowable water loss of 15%
 9 for most purchase water systems and 20% for purchase water systems
 10 that are located in the mountain regions of North Carolina. Due to
 11 challenges with terrain, the mountain areas are expected to have more
 12 issues with managing water loss than water systems in other areas of
 13 North Carolina. The table below lists the purchase water systems that
 14 were adjusted for water loss, the actual water loss percentage, and the
 15 Public Staff's recommended allowable water loss percentage.

Purchase Water System	Supplier	Actual Water Loss (%)	PS Adjusted Water Loss (%)
Zemosa Acres	City of Concord	37%	15%
Whispering Pines	Town of Southern Pines	25%	15%
Carolina Forest	Montgomery County	51%	15%
Woodrun	Montgomery County	27%	15%
High Vista Estates	City of Hendersonville	29%	20%

1 After incorporating the adjustments described above, the updated
2 rates, and water loss adjustments, for CWSNC's uniform rate
3 systems, the Public Staff recommends purchased water expenses of
4 \$1,445,302. TC/BF/FH water operations do not currently have any
5 purchased water expenses.

6 The calculations are shown in **Darden Exhibit No. 4.**

7 **PURCHASED SEWER TREATMENT EXPENSE**

8 The Public Staff has reviewed the purchased sewer treatment
9 expenses filed in CWSNC's application. CWSNC provided all the
10 invoices for the purchase sewer systems. The pro forma adjustment
11 to the Purchased Sewer Treatment Expense that the Company
12 proposed included updating rate changes for Johnston County,
13 Metropolitan Sewage District of Buncombe County, and City of
14 Gastonia. Johnston County was updated for rates effective October 1,
15 2019. Metropolitan Sewage District of Buncombe County and City of
16 Gastonia were updated for rates effective July 1, 2018.

17 The Public Staff recommends updating all the purchase sewer
18 suppliers' rates to the most recent effective rates. In addition to the
19 suppliers included in the Company's pro forma adjustment, the Public
20 Staff also included rate updates for the Town of Dallas. All the rates
21 were updated to the most recent effective rates as of September 2019,

1 except for Johnston County rates that were updated to the October 1,
2 2019 rates that the Company provided.

3 The purchase sewer systems Fairfield Mountain and Ridges at
4 Mountain Harbor are supplied by the Town of Lake Lure and Clay
5 County Water and Sewer District, respectively. These two purchase
6 sewer systems are billed a flat-rate on a bi-monthly schedule.

7 The Public Staff's purchased sewer treatment expense
8 recommendation was calculated using the total gallons purchased
9 based on the invoices provided and the most current rates to project
10 an annualized cost. The flat-rate annual amounts for Fairfield
11 Mountain and Ridges at Mountain Harbor were also included. For
12 CWSNC's uniform rate systems, the Public Staff recommends
13 purchased sewer treatment expenses of \$740,741. BF/FH sewer
14 operations do not currently have any purchased sewer treatment
15 expenses.

16 The calculations are shown in **Darden Exhibit No. 5**.

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

18 A. Yes, it does.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24

(Whereupon, the prefiled testimony of Michelle M. Boswell and Appendix A were copied into the record as if given orally from the stand.)

(Whereupon, Boswell Exhibit Numbers 1 and 2 were identified as premarked and admitted into evidence.)

OFFICIAL COPY
Dec 09 2019

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. W-354, SUB 364

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

TESTIMONY OF
MICHELLE M. BOSWELL
PUBLIC STAFF – NORTH
CAROLINA UTILITIES
COMMISSION

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION**DOCKET NO. W-354, SUB 364****TESTIMONY OF MICHELLE M. BOSWELL
ON BEHALF OF THE PUBLIC STAFF
NORTH CAROLINA UTILITIES COMMISSION****NOVEMBER 4, 2019**

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

3 A. My name is Michelle M. Boswell. My business address is 430 North
4 Salisbury Street, Dobbs Building, Raleigh, North Carolina. I am a
5 Staff Accountant with the Accounting Division of the Public Staff –
6 North Carolina Utilities Commission.

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

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

9 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
10 **PROCEEDING?**

11 A. The purpose of my testimony is to present the accounting and
12 ratemaking adjustments I am recommending regarding federal
13 Excess Deferred Income Taxes (EDIT).

1 **Q. PLEASE DESCRIBE THE SCOPE OF YOUR INVESTIGATION**
2 **INTO THE COMPANY'S FILING.**

3 A. My investigation included a review of the application, testimony,
4 exhibits, and other data filed in this proceeding by Carolina Water
5 Service, Inc. of NC (CWSNC or Company). The Public Staff has also
6 conducted extensive discovery in this matter, including the review of
7 numerous responses provided by the Company in response to data
8 requests.

9 **Q. PLEASE DESCRIBE THE ORGANIZATION OF YOUR EXHIBITS.**

10 A. Boswell Exhibit 1 presents the calculation of federal protected EDIT
11 effects on the Company's rate base and income statement.

12 Boswell Exhibit 2 sets forth the calculation of an annual Federal
13 Unprotected EDIT Rider to be in effect for two years.

14 **Q. PLEASE DESCRIBE YOUR RECOMMENDED ADJUSTMENTS.**

15 A. My adjustments are described below.

16 **FEDERAL EXCESS DEFERRED INCOME TAXES**

17 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO FEDERAL EXCESS**
18 **DEFERRED INCOME TAXES.**

19 A. In the initial testimony of Company witness DeStefano, the Company
20 stated that its 2017 federal tax return was filed in late 2018, and that
21 certain adjustments to book balances and reserves related to EDIT

1 were recorded to CWSNC's books, adjustments that were not
2 reflected in the Company's most recent rate case. These
3 adjustments affected the balance of both federal protected and
4 unprotected EDIT. Due to the adjustments from the 2017 tax return,
5 the Company proposed two adjustments to federal EDIT in the
6 present case: (1) adjust the federal protected EDIT balance and
7 continue the amortization over the remaining life as calculated
8 utilizing the IRS-approved Reverse South Georgia Method (RSGM)
9 and (2) adjust the federal unprotected EDIT balance and refund the
10 remaining balance to customers through a levelized rider over 2
11 years, instead of the 35 months remaining in the amortization period
12 approved in the last case.

13 The Company indicated, in response to data requests, that the
14 adjustments to the federal protected and unprotected EDIT balances
15 were due, primarily, because 1) the Company took advantage of a
16 late IRS notice stating that regulated utilities were allowed 100%
17 bonus depreciation for those assets placed in service during the
18 period of September 28, 2017 to December 31, 2017, without a
19 binding contract in place before September 28, , and 2) they adjusted
20 amounts utilized in the prior rate case to the actual amounts on their
21 final tax return for 2017.

22 I reviewed the information provided by the Company, and I
23 recommend one adjustment to the calculation of unprotected EDIT.

1 In Company Exhibit W-1-10, Schedule 10, page 1, the Company
2 calculated the unprotected EDIT amortization for the 13 months
3 ended March 31, 2020, treating the adjustment as though it had
4 occurred when the rider began, but calculated the protected EDIT
5 amortization treating the adjustment as becoming effective as of April
6 1, 2020. I have made an adjustment to correct the mismatched
7 calculations and calculated both protected and unprotected EDIT
8 amortizations with the adjustments effective as of April 1, 2020 (thus
9 amortizing the entire amount of each adjustment as being amortized
10 over the remaining amortization period. Boswell Exhibit 2 presents
11 the updated Unprotected EDIT Rider to be in effect for two years.

12 **Q. WHAT IS THE PUBLIC STAFF'S RECOMMENDATION**
13 **REGARDING THE COMPANY'S PROPOSED CHANGE TO THE**
14 **AMORTIZATION PERIOD FOR FEDERAL UNPROTECTED EDIT?**

15 A. The Public Staff does not oppose the Company's request to refund
16 the remaining federal unprotected EDIT balance over 24 months
17 instead of the remaining 35 months as originally ordered by the
18 Commission in Docket No. W-354, Sub 360. The Public Staff
19 believes these adjustments to be reasonable for purposes of this
20 proceeding, but requests that the decisions as to the timing of the
21 recognition of the EDIT adjustments and the decrease in the refund
22 period not be precedent-setting, and that each request for changes

1 to federal EDIT balances and refunds be determined on a case-by-
2 case basis.

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

4 **A.** Yes, it does.

Appendix A

MICHELLE M. BOSWELL

Qualifications and Experience

I graduated from North Carolina State University in 2000 with a Bachelor of Science degree in Accounting. I am a Certified Public Accountant.

I joined the Public Staff in September 2000. I have performed numerous audits and/or presented testimony and exhibits before the Commission addressing a wide range of electric, natural gas, and water topics. I have performed audits and/or presented testimony in DEC's 2010, 2015, and 2017 REPS Cost Recovery Rider; DEP's 2014, 2015, 2017, and 2018 REPS Cost Recovery Rider; the 2014 REPS Cost Recovery Rider for Dominion North Carolina Power (DNCP); the 2008 REPS Compliance Reports for North Carolina Municipal Power Agency 1, North Carolina Eastern Municipal Power Agency, GreenCo Solutions, Inc., and EnergyUnited Electric Membership; four recent Piedmont rate cases, PSNC's 2016 rate case, DNCP's 2012 rate case, DEP's 2013 and 2017 rate case, DEC's 2017 rate case, the 2018 fuel rider for Dominion Energy North

Carolina, , several Piedmont, NUI, and Toccoa annual gas cost reviews; Piedmont and NUI's merger; and Piedmont and NCNG's merger.

Additionally, I have filed testimony and exhibits in numerous water rate cases and performed investigations addressing a wide range of topics and issues related to the water, electric, and telephone industries.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24

(Whereupon, the prefiled testimony of Lynn Feasel was copied into the record as if given orally from the stand.)

(Whereupon, Public Staff Feasel Exhibits I and II and Revised Public Staff Feasel Exhibits I and II were identified as premarked and admitted into evidence.)

OFFICIAL COPY

Dec 09 2019

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. W-354, SUB 364

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

TESTIMONY OF
 LYNN FEASEL
 PUBLIC STAFF – NORTH
 CAROLINA UTILITIES
 COMMISSION

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

**TESTIMONY OF LYNN FEASEL
ON BEHALF OF THE PUBLIC STAFF
NORTH CAROLINA UTILITIES COMMISSION**

November 4, 2019

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

3 A. My name is Lynn Feasel and my business address is 430 N.
4 Salisbury Street, Raleigh, North Carolina. I am a Staff Accountant
5 with the Accounting Division of the Public Staff – North Carolina
6 Utilities Commission, and represent the using and consuming public.

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

9 A. I have been employed by the Public Staff since November 6, 2016.

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

12 A. I am a graduate of Baldwin Wallace University with a Master of
13 Business Administration degree in Accounting. I am a Certified Public
14 Accountant licensed in the State of North Carolina. Prior to joining
15 the Public Staff, I was employed by Franklin International in
16 Columbus, Ohio until June 2013. Additionally, I worked for ABB Inc.
17 from September 2013 until October 2016. I joined the Public Staff as
18 a staff accountant in November 2016. Since joining the Public Staff,

1 I have worked on rate cases involving water and sewer and natural
2 gas companies, filed testimony and affidavits in various general rate
3 cases, updated earnings reports for Carolina Water Service, Inc. of
4 North Carolina and Aqua North Carolina, Inc., calculated refunds to
5 consumers from AH4R and Progress Residential, and reviewed
6 franchise and contiguous filings for multiple water and sewer
7 companies.

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

9 A. I am responsible for analyzing testimony, exhibits, and other data
10 presented by parties before this Commission. I have the further
11 responsibility of performing the examinations of books and any other
12 data and data request responses provided by public utilities in
13 proceedings before the Commission, and summarizing the results
14 into testimony and exhibits for presentation to the Commission.

15 **Q. WHAT IS THE NATURE OF THE APPLICATION IN THIS**
16 **PROCEEDING?**

17 A. On June 28, 2019, Carolina Water Service, Inc. of North Carolina
18 (CWSNC or Company) filed an application with the Commission
19 seeking authority to adjust rates and charges for water and sewer
20 service in all of its service areas in North Carolina, approve a
21 conservation rate pilot program, and modify certain terms and
22 conditions for the provision of water and sewer services. On October

1 4, 2019, the Company filed updated schedules for this rate case. My
2 investigation included a review of the original and updated application
3 filed by the Company, an examination of the Company's books and records
4 for the test year and post test year, and a review of any additional
5 documentation provided by the Company in response to written and verbal
6 data requests.

7 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
8 **PROCEEDING?**

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

17 **Q. WOULD YOU BRIEFLY DESCRIBE THE PRESENTATION OF**
18 **YOUR TESTIMONY AND EXHIBITS?**

19 A. Yes. My testimony contains a discussion of each issue resulting from
20 my investigation, and my exhibit consists of schedules showing the
21 calculation of my adjustments to revenues, expenses, and rate base.
22 My schedules also reflect adjustments recommended by other Public

1 Staff witnesses. Schedules 1(a) through 1(d) of my Exhibit I present
2 the return on original cost rate base for water and sewer operations
3 under present rates, Company proposed rates, and Public Staff
4 recommended rates. Schedules 2(a) through 2(d) of Exhibit I, along
5 with their supporting schedules, present the original cost rate base
6 for water and sewer operations. Schedule 3(a) through 3(d) of Exhibit
7 I, along with their supporting schedules, present the calculation of
8 net operating income for a return under present rates, Company
9 proposed rates, and Public Staff recommended rates.

10 **Q. WHAT MODIFICATIONS TO THE TEST PERIOD HAVE YOU**
11 **MADE IN THIS PROCEEDING?**

12 A. In its application, CWSNC made pro forma adjustments to rate base
13 to include construction work in progress (CWIP) projects, net of
14 retirements, which will be placed in service between April 1, 2019,
15 and the hearing date in this proceeding. The Public Staff agrees with
16 the Company that the test year should be updated for certain events
17 that occurred after the test year. Those events, however, should be
18 known and measurable as of a certain date before they should be
19 considered in evaluating the need for rate relief. Therefore, Public
20 Staff witnesses have made adjustments in this proceeding to update
21 the Company's test year to recognize certain events affecting rate
22 base, revenues, and expenses as a result of certain known and
23 measurable events that occurred through September 30, 2019.

1 As part of this overall update adjustment, I have made the
 2 adjustments to recognize changes to plant in service, accumulated
 3 depreciation, contributions in aid of construction (CIAC), purchase
 4 acquisition adjustment (PAA), and to also recognize other rate base
 5 changes that occurred through September 30, 2019. Deferred
 6 charges have been amortized through March 31, 2020.

7 In addition, several major CWIP projects that were completed and
 8 placed in service prior to the hearing in this proceeding have been
 9 included in rate base.

10 **Q. WHAT ARE THE COMPANY'S PROPOSED INCREASES IN**
 11 **SERVICE REVENUES IN THIS CASE?**

12 A. The service revenues under present rates, the Company's proposed
 13 increases, and the Company's proposed rates are as follows:

	<u>Present Rates</u>	<u>Proposed Increase</u>	<u>Proposed Rates</u>
CWSNC Water	\$ 17,485,912	\$ 2,700,751	\$ 20,186,663
CWSNC Sewer	12,961,929	3,982,972	16,944,901
BF/FH/TC Water	1,304,521	189,171	1,493,692
BF/FH Sewer	<u>2,099,870</u>	<u>213,448</u>	<u>2,313,318</u>
Total	<u>\$ 33,852,232</u>	<u>\$ 7,086,342</u>	<u>\$ 40,938,574</u>

14 **Q. WHAT CONCLUSIONS HAVE YOU REACHED AS TO THE**
 15 **COMPANY'S RATE INCREASE REQUEST?**

- 1 A. Based on my investigation, the original cost rate base as of March
2 31, 2019, updated to September 30, 2019, is as follows:

CWSNC Water	\$	63,141,528
CWSNC Sewer		64,858,204
BF/FH/TC Water		2,976,732
BF/FH Sewer		<u>7,578,733</u>
Total	\$	<u>138,555,197</u>

- 3 Based on the overall rate of return of 7.15% recommended by Public
4 Staff witness Hinton, I recommend that rates be set to produce the
5 following revenues:

	Service Revenues	Other Revenues & Uncollectibles	Total Operating Revenues
CWSNC Water	\$18,010,145	\$58,115	\$18,068,260
CWSNC Sewer	15,777,643	13,037	15,790,680
BF/FH/TC Water	1,261,298	34,904	1,296,202
BF/FH Sewer	2,071,444	-4,284	2,067,160
Total	<u>\$37,120,530</u>	<u>\$101,772</u>	<u>\$37,222,302</u>

- 6 Based on these levels of revenues, I recommend the following
7 increases in service revenues:

CWSNC Water	\$	524,233
CWSNC Sewer		2,815,714
BF/FH/TC Water		(43,223)
BF/FH Sewer		(28,426)
Total	\$	<u>3,268,298</u>

1 **Q. DOES FEASEL EXHIBIT I REFLECT ADJUSTMENTS**
2 **SUPPORTED BY OTHER PUBLIC STAFF WITNESSES?**

3 A. Yes, my exhibit reflects the following adjustments supported by other
4 Public Staff witnesses:

5 (1) The recommendations of Public Staff witness Casselberry
6 regarding the following items:

- 7 (a) Service revenues at present rates; and
- 8 (b) Service revenues at Company proposed rates.

9 (2) The recommendations of Public Staff witness Darden
10 regarding the following items:

- 11 (a) Purchased water/sewer;
- 12 (b) Purchased power;
- 13 (c) Maintenance and repair;
- 14 (d) Maintenance testing;
- 15 (e) Meter reading; and
- 16 (f) Chemicals.

1 (3) The recommendations of Public Staff witness Boswell
2 regarding the following item:

3 (a) Excess deferred income tax (EDIT).

4 (4) The recommendations of Public Staff witness Henry regarding
5 the following items:

6 (a) Connestee Falls WWTP and Nags Head WWTP
7 annual amortization; and

8 (b) Connestee Falls WWTP and Nags Head WWTP
9 adjustment to accumulated depreciation.

10 (5) The recommendations of Public Staff witness Hinton
11 regarding the following items:

12 (a) Capital structure;

13 (b) Embedded cost of long-term debt; and

14 (c) Return on common equity.

15 **Q. WHAT ADJUSTMENTS WILL YOU DISCUSS?**

16 A. The accounting and ratemaking adjustments that I will discuss relate
17 to the following items:

18 (a) Plant in service;

19 (b) Accumulated depreciation;

20 (c) Cash working capital;

- 1 (d) Contributions in aid of construction (CIAC);
- 2 (e) Accumulated deferred income taxes (ADIT);
- 3 (f) Customer deposits;
- 4 (g) Gain on sale and flow back taxes;
- 5 (h) Plant acquisition adjustment (PAA);
- 6 (i) Excess book value;
- 7 (j) Average tax accruals;
- 8 (k) Deferred charges;
- 9 (l) Pro forma plant;
- 10 (m) Miscellaneous revenues;
- 11 (n) Uncollectibles;
- 12 (o) Salaries and wages;
- 13 (p) Maintenance and repair;
- 14 (q) Transportation;
- 15 (r) Operating charge to plant;
- 16 (s) Outside services other;
- 17 (t) Office supplies and other office expense;
- 18 (u) Regulatory commission expense;
- 19 (v) Pension and other benefits;
- 20 (w) Rent;
- 21 (x) Insurance;
- 22 (y) Office utility;
- 23 (z) Miscellaneous expense;

- 1 (aa) Depreciation expense;
2 (ab) Amortization of CIAC;
3 (ac) Amortization of PAA;
4 (ad) Franchise and other taxes;
5 (ae) Payroll taxes;
6 (af) Regulatory fee;
7 (ag) Deferred income tax;
8 (ah) State income tax; and
9 (ai) Federal income tax.

10 **PLANT IN SERVICE**

11 **Q. IN WHAT AREAS HAVE YOU MADE ADJUSTMENTS TO PLANT**
12 **IN SERVICE?**

13 A. First, I made an adjustment to remove from direct plant in service,
14 plant held for future use. Plant held for future use is not currently
15 used or useful in providing service to CWSNC's water and sewer
16 customers. This adjustment is consistent with similar treatment made
17 by the Public Staff and ordered by the Commission in prior CWSNC
18 rate cases.

19 Second, I've reclassified unrecovered due diligent cost for Riverbend
20 and Pace Utilities from deferred charges to plant in service. This type
21 of cost should be classified as franchise costs under plant in service
22 account instead of deferred charges.

1 Third, I removed software maintenance expense which should have
2 been classified to a pre-paid account but was misclassified to a plant
3 in service account.

4 Fourth, I adjusted direct plant in service to include actual general
5 ledger additions made on the Company's books from April 1, 2019,
6 through September 30, 2019, the update period for rate base items.

7 Direct plant in service was also adjusted to include actual costs for
8 CWIP projects that have been completed and are in service as of
9 September 30, 2019.

10 Fifth, the Company received insurance reimbursement for a portion
11 of the costs incurred to repair damaged sewer systems due to
12 Hurricane Florence. I netted the insurance proceeds against the cost
13 to repair the damaged sewer systems based on information provided
14 by the Company.

15 Sixth, I corrected an adjustment made by the Company to allocate
16 WSC rate base and expenses to Carolina Water. The Company
17 adjusted WSC rate base and expenses by taking the difference
18 between unadjusted ERC percentages and adjusted ERC
19 percentages times WSC per book amount before allocation. This is
20 incorrect because the unadjusted amount does not reflect the
21 amount allocated to CWSNC during the test year. I corrected this

1 error by multiplying the adjusted ERC percentages for Carolina
2 Water by the actual unallocated WSC per book rate base and
3 expenses to determine the amount that should be allocated to
4 CWSNC.

5 The Company did not adjust the allocations of rate base and
6 expenses from the Regional and State cost centers using the
7 adjusted ERC percentages. I corrected this error by calculating the
8 amount of rate base and expenses that should be allocated from the
9 Regional and State cost centers using the adjusted ERC
10 percentages.

11 I compared the sum of my adjusted costs that should be allocated
12 from the WSC, Regional, and State cost centers to the allocated
13 amount on CWSNC's books to get the adjustment that should be
14 made in this proceeding.

15 **ACCUMULATED DEPRECIATION**

16 **Q. HOW HAVE YOU ADJUSTED ACCUMULATED DEPRECIATION?**

17 A. I adjusted accumulated depreciation to include actual and known
18 additions made on the Company's books from April 1, 2019, through
19 September 30, 2019, for direct accumulated depreciation.
20 Accumulated depreciation also reflects a matching adjustment based
21 on the Public Staff's recommended level of depreciation expense.

1 In addition, I adjusted accumulated depreciation to reflect the
2 depreciation related to the reclassification of Riverbend and Pace
3 Utilities' unrecovered due diligence costs from deferred charges to
4 plant in service. I adjusted accumulated depreciation related to the
5 deferred carrying costs of the Connetsee Falls and Nags Head
6 WWTPs, based on the recommendation of Public Staff witness
7 Henry.

8 Lastly, I adjusted accumulated depreciation related to adjustments
9 discussed above for corrections to allocated amounts from the WSC,
10 Regional, and State cost centers.

11 **CASH WORKING CAPITAL**

12 **Q. PLEASE DESCRIBE YOUR CALCULATION OF CASH WORKING**
13 **CAPITAL.**

14 A. Cash working capital provides the Company with the funds
15 necessary to carry on the day to day operations of the Company. In
16 my calculation, I have included 1/8 of total adjusted Operating and
17 Maintenance (O&M) and General and Administrative (G&A)
18 expenses, less purchased water and sewer expense, as a measure
19 of cash working capital.

20 **CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC)**

21 **Q. PLEASE EXPLAIN YOUR ADJUSTMENTS TO CIAC.**

1 A. CIAC has been adjusted to include actual and known additions made
2 on the Company's books from April 1, 2019, through September 30,
3 2019, for both CIAC and accumulated amortization. Accumulated
4 amortization also reflects a matching adjustment based on the Public
5 Staff's recommended level of amortization expense.

6 **ACCUMULATED DEFERRED INCOME TAXES (ADIT)**

7 **Q. HOW HAVE YOU ADJUSTED ADIT?**

8 A. I have made several adjustments to ADIT. First, I have updated ADIT
9 associated with rate case expense to reflect the unamortized
10 balance recommended by the Public Staff. Next, I have adjusted
11 ADIT to include the amount associated with the Public Staff's
12 recommended levels of unamortized deferred maintenance. Finally,
13 I adjusted ADIT to include the amount allocated from WSC that was
14 not included in the Company's pro forma balance for ADIT listed on
15 the application.

16 The Public Staff will be recommending additional adjustments to
17 ADIT once updated information has been received from the
18 Company, including updated rate case expense.

19 **CUSTOMER DEPOSITS**

20 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO CUSTOMER**
21 **DEPOSITS.**

1 A. Customer deposits were adjusted to reflect the balance as of
2 September 30, 2019, for both customer deposits and customer
3 deposit accrued interest, resulting in an increase in customer
4 deposits for CWSNC Uniform Water, CWSNC Uniform Sewer,
5 BF/FH/TC Water, and BF/FH Sewer.

6 **GAIN ON SALE AND FLOW BACK TAXES**

7 **Q. WHAT ADJUSTMENT DID YOU MAKE TO GAIN ON SALE AND**
8 **FLOW BACK TAXES?**

9 A. I have adjusted gain on sale and flow back taxes to amortize the gain
10 on sale of systems sold to CMUD through September 30, 2019.

11 **PLANT ACQUISITION ADJUSTMENT (PAA)**

12 **Q. PLEASE DESCRIBE YOUR ADJUSTMENTS TO PAA.**

13 A. PAA has been adjusted to include actual general ledger additions
14 made on the Company's books as of September 30, 2019, for both
15 PAA and accumulated amortization. PAA amortization has also been
16 adjusted to include an annualized level of amortization based on the
17 Public Staff's adjusted level of PAA amortization expense.

18 **EXCESS BOOK VALUE**

19 **Q. WHY DID YOU ADJUST EXCESS BOOK VALUE?**

20 A. Excess book value represents the difference between the price paid
21 by CWSNC to purchase stock of water and sewer systems and the

1 net book value of the stock. I have adjusted the excess book value
2 to reflect the accumulated amortization and unamortized balances
3 as of September 30, 2019.

4 **AVERAGE TAX ACCRUALS**

5 **Q. HOW DID YOU CALCULATE AVERAGE TAX ACCRUALS?**

6 A. Average tax accruals, calculated as 1/2 of property taxes plus 1/5 of
7 regulatory fee, are taxes that the Company collects in rates but does
8 not pay to the governmental agency every month. Since the
9 Company has the use of the money until it is paid to the
10 governmental agency, these tax accruals should be deducted from
11 rate base. Payroll taxes are not included in my calculation of average
12 tax accruals since they are paid to the taxing agencies on a more
13 frequent basis.

14 **DEFERRED CHARGES**

15 **Q. PLEASE DESCRIBE YOUR ADJUSTMENTS TO DEFERRED**
16 **CHARGES.**

17 A. I have adjusted deferred charges to reflect the unamortized balance
18 of deferred maintenance costs for tank painting, tank inspection, and
19 wastewater treatment plant painting as of March 31, 2020. I did not
20 include the unamortized balance of the Belvedere pump and haul
21 costs in deferred charges. It is the Public Staff's recommendation

1 that the Company should not be able to earn a return on these
2 unusual and nonrecurring expenses that are abnormally high due to
3 a disagreement with the Belvedere golf course. My exclusion of the
4 unamortized balance of the pump and haul expenses is consistent
5 with the treatment stipulated to by CWSNC and the Public Staff in
6 the Company's W-354, Sub 360 rate case proceeding.

7 Next, I have adjusted unamortized rate case expense to reflect the
8 Public Staff's recommended level of rate case costs, less one year
9 of amortization, as discussed later in my testimony under regulatory
10 commission expense.

11 Lastly, I've reclassified unrecovered due diligent cost for Riverbend
12 and Pace Utilities from deferred charges to plant in service. This type
13 of cost should be classified as franchise costs under plant in service
14 account instead of deferred charges.

15 **PRO FORMA PLANT**

16 **Q. WHY DID YOU ADJUST PRO FORMA PLANT?**

17 A. In this proceeding, CWSNC included in rate base, estimated
18 amounts for CWIP projects expected to be completed and in service
19 by the hearing date. I have removed the estimated cost for these
20 projects from rate base and adjusted plant in service to include the

1 actual costs of CWIP projects completed and in service as of
2 September 30, 2019.

3 **MISCELLANEOUS REVENUES**

4 **Q. WHY DID YOU ADJUST MISCELLANEOUS REVENUES?**

5 A. I adjusted miscellaneous revenues to correct the Company's error in
6 omitting the allocated proceeds from the sale of utility property from
7 its original application.

8 I calculated a forfeited discount rate for CWSNC water and sewer,
9 BF/FH/TC water, and BF/FH sewer operations by dividing the
10 respective test year forfeited discounts by test year service
11 revenues. The resulting rates were then applied to the Public Staff's
12 present, proposed, and recommended levels of service revenues to
13 determine an appropriate level of forfeited discounts to include in
14 miscellaneous revenues.

15 **UNCOLLECTIBLES**

16 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO UNCOLLECTIBLES.**

17 A. I have calculated uncollectibles percentages for CWSNC Water
18 operations, CWSNC Sewer operations, BF/FH/TC Water operations,
19 and BF/FH Sewer operations based on the per books levels of
20 uncollectibles and service revenues for the test year. I then applied
21 these percentages to my adjusted levels of service revenues under

1 present, Company proposed, and recommended rates to derive my
2 adjusted levels of uncollectibles expense.

3 **SALARIES AND WAGES**

4 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO SALARIES AND**
5 **WAGES.**

6 A. I have adjusted salaries and wages to reflect the updated payroll
7 information provided by CWSNC. The Company's updated payroll
8 includes salary and wage increases granted since the end of the test
9 year, the removal of terminated employees, and the addition of new
10 employees hired since the end of the test year. In the original filing,
11 the Company used forecasted salary levels, after taking into
12 consideration an estimated salary increase of 3% in April 2020. I
13 removed this forecasted salary in 2020 and used the actual up-to-
14 date salary and wages expense incurred by the Company.

15 **MAINTENANCE AND REPAIR**

16 **Q. HOW HAVE YOU ADJUSTED MAINTENANCE AND REPAIR**
17 **EXPENSE?**

18 A. Maintenance and repair expense has been adjusted to include
19 amounts recommended by Public Staff witness Darden. In addition,
20 I made the following adjustments to maintenance and repair:

1 (1) I adjusted maintenance and repair to reflect one year of
2 annual amortization expense based on the Public Staff's
3 recommended level of deferred charges discussed above under
4 deferred charges. Hurricane Florence expense incurred by the
5 Company, net of insurance reimbursements, have been amortized
6 over three years, and are reflected in deferred maintenance expense
7 adjustment.

8 (2) I adjusted maintenance and repairs expense related to
9 adjustments discussed above for corrections to allocated amounts
10 from the WSC, Regional, and State cost centers.

11 (3) I adjusted the number of years used to calculate average
12 storm cost. The Company used three years to calculate average
13 storm cost and my recommendation is 10 years would be a more
14 appropriate period of time to calculate an annualized level of storm
15 costs. Using a ten-year average of storm costs incurred would
16 include years in which storm costs were high and low, resulting in a
17 more reasonable average than what would result from using only the
18 three most current years.

19 (4) I removed pro forma maintenance and repair expense
20 adjustments for Pace Utilities. According to information provided by
21 the Company, maintenance work for Pace Utilities will be performed
22 by CWSNC personnel instead of assigned to third parties; therefore,

1 maintenance expense for Pace Utilities has been included in
2 expenses on the Company's books.

3 (5) I removed estimated deferral accounting O&M expenses from
4 maintenance and repair related to the wastewater treatment plants
5 at Connestee Falls and Nags Head. The Company did not provide
6 any actual costs related to deferred O&M expenses.

7 **TRANSPORTATION**

8 **Q. HOW HAVE YOU ADJUSTED TRANSPORTATION EXPENSE?**

9 A. I adjusted transportation expense related to adjustments discussed
10 above for corrections to allocated amounts from the WSC, Regional,
11 and State cost centers.

12 **OPERATING EXPENSE CHARGED TO PLANT**

13 **Q. HOW HAVE YOU ADJUSTED OPERATING EXPENSE CHARGED**
14 **TO PLANT EXPENSE?**

15 A. I adjusted capitalized salaries and wages related to
16 adjustments discussed above for corrections to allocated amounts
17 from the WSC, Regional, and State cost centers. In the updated
18 filing, the Company removed the adjustment for capitalized labor
19 costs related to Hurricane Florence, since Hurricane Florence related
20 labor costs have already been recovered under deferred
21 maintenance expense. The Public Staff agrees with this change. In

1 addition, I also updated capitalized salaries and wages to reflect the
2 actual amount as of September 30, 2019, to match the updated
3 salary level.

4 **OUTSIDE SERVICE OTHER**

5 **Q. HOW HAVE YOU ADJUSTED OUTSIDE SERVICE OTHER**
6 **EXPENSE?**

7 A. I adjusted outside service expense related to adjustments discussed
8 above for corrections to allocated amounts from the WSC, Regional,
9 and State cost centers. I also removed legal fees that were outside
10 of the test period, legal fees that overlapped with the prior rate case,
11 and legal fees related to other jurisdictions.

12 I also removed other outside service fees from account #6050 that
13 were outside of the test period.

14 **OFFICE SUPPLIES AND OTHER OFFICE EXPENSE**

15 **Q. HOW HAVE YOU ADJUSTED OFFICE SUPPLIES AND OTHER**
16 **OFFICE EXPENSE?**

17 A. I adjusted office supplies and other office expense related to
18 adjustments discussed above for corrections to allocated amounts
19 from the WSC, Regional, and State cost centers.

1

REGULATORY COMMISSION EXPENSE

2

Q. PLEASE EXPLAIN HOW YOU CALCULATED REGULATORY COMMISSION EXPENSE.

3

4

A. Based on the information provided by the Company regarding costs incurred to date and expected costs that will occur to complete this rate case proceeding, I have included rate case expenses for this proceeding, which is comprised of legal fees; capitalized salaries and wages; and consulting fees. I have allocated total rate case expense to CWSNC Uniform Water, CWSNC Uniform Sewer, BF/FH/TC Water, and BF/FH Sewer based on the customer allocation percentages calculated from the Company's equivalent residential connections (ERCs). I also included in my calculation of rate case expense, the unamortized balance of rate case expense from prior rate case proceedings, Docket No. W-354, Sub 360 (Sub 360) and Docket No. W-354, Sub 356 (Sub 356). I am recommending that total rate case expenses for this proceeding and the unamortized balance from Sub 360 and Sub 356 be amortized to operating expense over five years.

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

PENSION AND OTHER BENEFITS

20

Q. PLEASE EXPLAIN HOW YOU ADJUSTED PENSION AND OTHER BENEFITS EXPENSE.

21

1 A. I updated 2019 pension and other benefit expense for the updated
2 list of employees provided by the Company.

3 **RENT**

4 **Q. PLEASE EXPLAIN HOW YOU ADJUSTED RENT EXPENSE.**

5 A. I removed non-regulated rent expense from NC Owner LLC
6 according to the Company's response to ADR 28 and corrected rent
7 expense for Charlotte Warehouse to reflect the actual Year 6 O&M
8 expense instead of the estimated Year 7 O&M expense.

9 In addition, I also adjusted the rent expense for Piedmont Realty
10 Trust. In the application, the Company used an average annual rent
11 expense from the total lease expenses for 15 years to calculate the
12 annual rent expense for the current rate case. The Public Staff
13 believes that it is not reasonable to use average rent expense instead
14 of the actual rent expense for the upcoming year. The reason is that
15 each year, the actual rent expense is different and it increases on an
16 annual basis. Using average annual rent expense overstates the
17 expense that will actually happen in the upcoming year, and,
18 therefore, is not fair for rate payers to pay more expense than what
19 actually will incur in the near future. Another reason is that the
20 Company is able to terminate the lease contract anytime within 15
21 years, and if this happens, CWSNC will recover more than the actual

1 expense incurred. Therefore, I used the actual rent expense in the
2 upcoming year to calculate a more accurate rent expense.

3 **INSURANCE EXPENSE**

4 **Q. PLEASE EXPLAIN HOW YOU ADJUSTED INSURANCE**
5 **EXPENSE.**

6 A. I adjusted the insurance premiums to reflect the current amount for
7 insurance for Utilities, Inc., the parent company of CWSNC, provided
8 by the Company and allocated them to CWSNC using the following
9 factors:

10 (a) I allocated automobile insurance based on the number of
11 automobiles for CWSNC as a percentage to the total number of
12 automobiles covered by the policy;

13 (b) I allocated workers compensation insurance to reflect the
14 adjusted level of payroll;

15 (c) I allocated property insurance to reflect the value of the property
16 covered by the current insurance policies; and

17 (d) I allocated the remaining insurance items to CWSNC based on
18 the ERC percentage after adjustment for availability customers.

19 Since the pollution liability insurance is a three-year policy, I made
20 an adjustment to include only one-third of the pollution liability

1 insurance premium to reflect an annual level of premium for this
2 policy.

3 **OFFICE UTILITY**

4 **Q. HOW HAVE YOU ADJUSTED OFFICE UTILITY EXPENSE?**

5 A. I adjusted office utilities expense related to adjustments discussed
6 above for corrections to allocated amounts from the WSC, Regional,
7 and State cost centers.

8 **MISCELLANEOUS EXPENSE**

9 **Q. WHAT ADJUSTMENT WAS MADE TO MISCELLANEOUS**
10 **EXPENSE?**

11 A. I adjusted miscellaneous expense related to adjustments discussed
12 above for corrections to allocated amounts from the WSC, Regional,
13 and State cost centers and reclassified excess deferred taxes from
14 depreciation expense. In additions, I made more adjustments for the
15 following items:

16 (a) CWSNC included some expenses that should not be included in
17 the rate case, such as sponsorship, expenses related to other
18 jurisdictions, lobbying-related membership fees, etc. In the updated
19 filing, the Company has corrected some of these errors and I
20 removed the remaining;

1 (b) I removed the expense incurred due to Hurricane Florence from
2 miscellaneous expense because an annualized level has been
3 included in maintenance and repair;

4 (c) I removed annual amortization expense from uncovered due
5 diligent cost for Riverbend and Pace Utilities because these
6 expenses have been reclassified from deferred charges to plant in
7 service and the annual amortization expense was already included
8 in the depreciation expense.

9 **DEPRECIATION EXPENSE**

10 **Q. HOW DID YOU ADJUST DEPRECIATION EXPENSE?**

11 A. I have adjusted depreciation expense to reflect an ongoing annual
12 level of depreciation expense for direct plant in service, based on the
13 Public Staff's adjusted level of plant in service and the depreciation
14 lives for each plant account.

15 My calculation of depreciation also includes the annual amortization
16 of excess book value for both CWSNC Uniform Water and Sewer
17 operations.

18 Finally, I adjusted depreciation expense related to adjustments
19 discussed above for corrections to allocated amounts from the WSC,
20 Regional, and State cost centers.

1 **AMORTIZATION OF CIAC**

2 **Q. WHAT ADJUSTMENT DID YOU MAKE TO AMORTIZATION OF**
3 **CIAC?**

4 A. CIAC amortization expense was adjusted to reflect the Public Staff's
5 recommended level of CIAC times individual amortization rates for
6 each plant in service account related to CIAC.

7 **AMORTIZATION OF PAA**

8 **Q. WHY DID YOU ADJUST AMORTIZATION OF PAA?**

9 A. PAA amortization expense was adjusted to reflect the Public Staff's
10 recommended level of PAA times an amortization percentage, based
11 on the composite overall depreciation rate for the Public Staff's
12 adjusted level of direct plant in service.

13 **FRANCHISE TAX AND OTHER TAXES**

14 **Q. WHY DID YOU ADJUST FRANCHISE TAX AND OTHER TAXES?**

15 A. I adjusted franchise tax expense related to adjustments discussed
16 above for corrections to allocated amounts from the WSC, Regional,
17 and State cost centers.

18 **PAYROLL TAXES**

19 **Q. WHY DID YOU ADJUST PAYROLL TAXES?**

1 A. I have made an adjustment to reflect payroll taxes for operations and
2 maintenance, NC leadership, and shared services based on the
3 Public Staff's recommended level of salaries at the current payroll
4 tax rates.

5 **REGULATORY FEE**

6 **Q. WHAT ADJUSTMENT HAVE YOU MADE TO REGULATORY**
7 **FEE?**

8 A. I have calculated regulatory fee using the statutory rate of 0.13%
9 applied to total revenue under present, Company Proposed, and
10 Public Staff recommended rates.

11 **DEFERRED INCOME TAX**

12 **Q. WHY ADJUSTMENT HAVE YOU MADE TO DEFERRED INCOME**
13 **TAX?**

14 A. I have allocated protected federal EDIT to CWSNC Water, CWSNC
15 Sewer, BF/FH/TC Water, and BF/FH Sewer rate divisions by ADIT
16 percentage calculated from the deferred charge under rate base
17 items. The protected federal EDIT was recommended by Public Staff
18 witness Boswell.

19 **STATE INCOME TAX**

20 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO STATE INCOME**
21 **TAX.**

1 A. State income tax was calculated based on the adjusted levels of
2 revenues and expenses, and the State income tax rate of 2.5%,
3 effective January 1, 2019.

4 **FEDERAL INCOME TAX**

5 **Q. WHAT ADJUSTMENT HAVE YOU MADE TO FEDERAL INCOME**
6 **TAX?**

7 A. Federal income tax was calculated based on the adjusted levels of
8 revenues and expenses, and the federal income tax rate of 21%,
9 effective January 1, 2018.

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

11 A. Yes, it does.

1 MS. HOLT: And one final request is that Public
2 Staff Comments filed on September 20, 2019, be admitted
3 into evidence.

4 COMMISSIONER BROWN-BLAND: Those Comments are
5 -- are those the 365 Comments?

6 MS. HOLT: Yes.

7 COMMISSIONER BROWN-BLAND: That motion will be
8 allowed, and they will be received into evidence.

9 MS. HOLT: Thank you.

10 (Whereupon, the Initial Comments of
11 the Public Staff, Docket W-354, Sub
12 365, were admitted into evidence.)

13 MR. GRANTMYRE: Commissioner Brown-Bland, to
14 the extent I forgot to put Mr. Hinton's testimony and
15 supplemental testimony and his exhibits into evidence, I
16 would so move. I may have already done so.

17 COMMISSIONER BROWN-BLAND: I believe you did,
18 but if not, they will be received into evidence --

19 MR. GRANTMYRE: Thank you.

20 COMMISSIONER BROWN-BLAND: -- at this time.

21 (Hinton testimony and exhibits
22 admitted in Volume 7.)

23 COMMISSIONER BROWN-BLAND: Where are we now?
24 So are we having a panel?

1 MS. SANFORD: We are.

2 COMMISSIONER BROWN-BLAND: All right.

3 MS. SANFORD: Thank you. I'd like to call
4 Dante DeStefano to the stand and re-call Bryce
5 Mendenhall, please. And we're passing out summaries.

6 COMMISSIONER BROWN-BLAND: And Mr. Mendenhall,
7 you remain under oath, but we've got one more to add to
8 that.

9 DANTE M. DESTEFANO; Having first been duly sworn,
10 Testified as follows:

11 J. BRYCE MENDENHALL; Having been previously sworn,
12 Testified as follows:

13 MS. SANFORD: Let's see. Summaries are
14 distributed, so we will --

15 COMMISSIONER BROWN-BLAND: Ms. Sanford, if it's
16 okay with you on his rebuttal testimony, the Commission
17 will waive that summary.

18 MS. SANFORD: We'll do -- I'm sorry. We'll do
19 what?

20 COMMISSIONER BROWN-BLAND: We'll waive his
21 reading of the summary on the rebuttal testimony, if it's
22 okay with you.

23 MS. SANFORD: That will be okay.

24 COMMISSIONER BROWN-BLAND: And we will hear

1 from him on the summary of the settlement.

2 MS. SANFORD: That will be fine.

3 DIRECT EXAMINATION BY MS. SANFORD:

4 Q Mr. DeStefano, would you state your name and
5 business address for the record, please.

6 A My name is Dante DeStefano. Business address
7 is 4944 Parkway Plaza Boulevard, Charlotte, North
8 Carolina.

9 Q Thank you. Where are you employed, and in what
10 capacity?

11 A I'm employed by Carolina Water Service as
12 Director of Financial Planning and Analysis.

13 Q Did you cause to be filed in this docket direct
14 testimony consisting of 20 pages on June 28th?

15 A Yes.

16 Q Do you have any changes or corrections?

17 A No.

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

20 A They would.

21 MS. SANFORD: We ask that that testimony, the
22 direct, be copied into the record as if give orally from
23 the stand.

24 COMMISSIONER BROWN-BLAND: That motion is

1 allowed.

2 MS. SANFORD: Okay. Thank you.

3 (Whereupon, the prefiled direct
4 testimony of Dante M. DeStefano
5 was copied into the record as if
6 given orally from the stand.)

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. W-354, SUB 364

In the Matter of)	
Application of Carolina Water Service, Inc.)	
of North Carolina for Adjustment of Rates)	DIRECT TESTIMONY OF DANTE
and Charges, Approval of a Conservation)	M. DESTEFANO ON BEHALF OF
Rate Pilot Program, and Modifications to)	CAROLINA WATER SERVICE, INC.
Certain Terms and Conditions for the)	OF NORTH CAROLINA
Provision of Water and Sewer Service)	

OFFICIAL COPY

Dec 09 2019

**APPENDIX 10
SCHEDULE G-3**

June 28, 2019

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

2 **A.** My name is Dante M. DeStefano and my business address is 4944 Parkway
3 Plaza Boulevard, Suite 375, Charlotte, North Carolina 28217.

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

5 **A.** I am Manager of Financial Planning and Analysis for Carolina Water Service,
6 Inc. of North Carolina ("CWSNC" or "Company").

7 **Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL**
8 **BACKGROUND?**

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

21 **Q. WHAT ARE YOUR DUTIES WITH CAROLINA WATER SERVICE, INC.**
22 **OF NORTH CAROLINA?**

1 **A.** My primary responsibilities include forecasting, budgeting, and financial
2 analysis for the Company. I am also responsible for the oversight of
3 gathering data and preparation of rate cases, filing applications for rate
4 cases, and providing data request responses for support of rate case filings.

5 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
6 **PROCEEDING?**

7 **A.** The purpose of my testimony is to address certain financial aspects of the
8 rate case, including but not limited to: 1) the Company's pro-forma
9 revenues; 2) Amortization Expenses; 3) Book and Pro-Forma Adjustments;
10 4) Taxes Other Than Income; 5) capital structure; 6) Income Taxes,
11 including updates due to the Tax Cuts and Jobs Act ("TCJA"); 7) tariff
12 changes, including tap fees and reconnect fees; 8) rate design, including
13 the Company's proposal in NCUC Docket No. W-100, Sub 59 ("Sub 59");
14 9) acquisitions of Riverbend Estates in Docket No. W-354, Sub 358
15 ("Riverbend") and Pace Utilities Group in Docket No. W-354, Sub 361
16 ("Pace"); 10) impact of Docket No. W-354, Sub 363 ("Hurricane Docket"),
17 regarding deferral of costs due to Hurricane Florence; 11) request to
18 implement a Storm Reserve Fund to support extraordinary costs related to
19 severe storms; and 12) a Petition for deferred accounting of capital projects
20 to be filed in Docket No. W-354, Sub 365.

21
22

1 **Q. ARE YOU SPONSORING ANY EXHIBITS OR SCHEDULES IN THIS**
2 **PROCEEDING?**

3 **A.** Yes. I am presenting the following schedules in support of the Company's
4 position in this proceeding:

5 Schedule A – Rate Base and Rate of Return

6 Schedule B – Income Statement

7 Schedule C – Balance Sheet as of the Test Year ended March 31, 2019

8 Schedule D-1 – Required Return and Cost of Debt (Capital Structure)

9 Schedule E – Proof of Revenues and Average Bill Calculations

10 Schedule F-1 – Current Tariff

11 Schedule F-2 – Proposed Tariff

12 I am also sponsoring the North Carolina Utilities Commission's ("NCUC")
13 Form W-1 Report and supporting schedules, included in this filing.

14 **Q. PLEASE DESCRIBE THE COMPANY'S TEST YEAR AND PRO-FORMA**
15 **ADJUSTMENT PROCESS IN THIS PROCEEDING.**

16 **A.** CWSNC is utilizing a Test Year in this proceeding of the twelve months
17 ended March 31, 2019. The Company has incorporated various pro-forma
18 adjustments based on known and measurable changes in operating costs
19 beyond the Test Year. These adjustments are detailed and supported
20 within the NCUC Form W-1 Report provided with the Company's
21 application. I will elaborate regarding certain of these adjustments later in
22 my testimony.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18

PRO-FORMA REVENUES

Q. PLEASE DESCRIBE THE ADJUSTMENTS THE COMPANY HAS MADE TO TEST YEAR ACTUAL REVENUES IN COMPUTING PRO-FORMA PRESENT RATE REVENUES.

A. The Company completed a bill analysis to compile the base rate billing activity for the Test Year. The active customer count as of the end of the Test Year, March 31, 2019, was identified, then was increased as of the Test Year-end to account for the Company's two acquisitions, Pace and Riverbend, to determine total active customers. The Test Year's actual customer consumption was combined with the acquisition systems' Test Year consumption to determine the pro-forma total consumption. The Company applied the rates for the applicable tariff Rate Divisions as approved in Docket No. W-354, Sub 360¹ to the billing determinants to price out pro-forma present rate revenues at base rates. The Company also calculated an adjustment to pro-forma reconnect fees at the proposed rate, as detailed later in my testimony.

¹ The Commission's *Order Approving Joint Partial Settlement Agreement and Stipulation, Granting Partial Rate Increase, and Requiring Customer Notice* in the Company's last rate case was issued on February 21, 2019, in Docket No. W-354, Sub 360.

1 **Q. WHAT ARE THE PRO-FORMA PRESENT RATE REVENUES FOR EACH**
2 **RATE DIVISION?**

3 **A.** As a result of the above described calculation, pro-forma present rate
4 revenues in this proceeding are as follows for the Company's Rate
5 Divisions: \$17,425,381 for Uniform Water, \$12,518,870 for Uniform Sewer,
6 \$1,339,735 for Bradfield Farms/Fairfield Harbour/Treasure Cove
7 ("BF/FH/TC") Water, and \$2,092,464 for BF/FH/TC Sewer. Please see
8 Schedule B, Column G.

9 **Q. WHAT IS THE REVENUE INCREASE REQUESTED BY THE COMPANY**
10 **FOR EACH RATE DIVISION?**

11 **A.** The Company is requesting the following increases to present rate
12 revenues in this proceeding: \$2,674,305 or 15.35% for Uniform Water,
13 \$3,808,085 or 30.42% for Uniform Sewer, \$187,541 or 14.00% for
14 BF/FH/TC Water, and \$211,302 or 10.10% for BF/FH/TC Sewer. Please
15 see Schedule B, Column H.

16 **Q. HOW DOES THE COMPANY PROPOSE TO APPLY THE**
17 **RECOMMENDED RATE INCREASES TO EACH RATE DIVISION?**

18 **A.** CWSNC proposes to maintain the 52/48 ratio of fixed/volumetric revenues
19 for its water Rate Divisions as approved by the NCUC in Sub 360 docket,
20 the Company's most recently-decided general rate case. The Company
21 also proposes to maintain the existing fixed/volume ratios for its wastewater
22 tariffs. The Company has included adjustments to its purchased water and

1 purchased sewer treatment-driven volumetric rates to flow through recent
2 rate changes from its vendors. CWSNC does include in this application a
3 Conservation Rate Pilot Program (“Pilot Program”) related to the
4 Commission’s pending Sub 59 rate design rulemaking proceeding, which is
5 described later in my testimony. Please see Schedule E for the detailed
6 proof of revenues for both present and proposed rate revenues.

7 **AMORTIZATION EXPENSES**

8 **Q. WHAT IS THE COMPANY’S POSITION REGARDING THE**
9 **APPROPRIATE CONTRIBUTION IN AID OF CONSTRUCTION (“CIAC”)**
10 **AND PURCHASE ACCOUNTING ADJUSTMENT (“PAA”)**
11 **AMORTIZATION RATES TO BE UTILIZED IN THIS PROCEEDING?**

12 **A.** The Company agrees with the NCUC’s determination in its Final Order in
13 Sub 360 rate case that CIAC amortization rates should match the
14 depreciation rates of the corresponding utility plant account. Therefore, the
15 Company proposes using the approved CIAC amortization rates from
16 Sub 360, which equate to composite rates of 2.49% for Uniform Water,
17 2.04% for Uniform Sewer, 2.50% for BF/FH/TC Water, and 2.06% for
18 BF/FH/TC Sewer. The Company also proposes using the approved PAA
19 amortization rates in Sub 360 of 2.47% and 3.53% for its Water and Sewer
20 Rate Divisions, respectively.

21
22

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22

BOOK AND PRO-FORMA ADJUSTMENTS

Q. HAS THE COMPANY PROPOSED BOOK AND PRO-FORMA ADJUSTMENTS TO CALCULATE ITS REVENUE REQUIREMENT?

A. Yes, the Company has calculated various adjustments to components of its revenue requirement as adjustments to the Test Year balances and activity. Please see the NCUC Form W-1 Report, Item #10 (“W1-10”) and supplemental Schedules 1 through 35, included with this application.

TAXES OTHER THAN INCOME

Q. HAS THE COMPANY PROPOSED ANY ADJUSTMENTS TO THE TEST YEAR EXPENSES FOR PERSONAL OR REAL ESTATE PROPERTY TAXES?

A. The Company’s application does not include adjustments to the Test Year actuals for personal or real estate property taxes. However, municipalities are required in North Carolina to reassess property at least every eight years. In 2019, 27 of the state’s 100 counties are performing reassessments, including 14 of CWSNC’s 38 operating counties. Assessments are currently being finalized and resulting tax rates are soon to be approved and effective; therefore, the Company will provide updates to its property and real estate taxes as new information becomes available.

1 **CAPITAL STRUCTURE**

2 **Q. WHAT IS THE COMPANY'S PROPOSED CAPITAL STRUCTURE IN**
3 **THIS RATE CASE?**

4 **A.** The Company is proposing an equity ratio of 47.96% and a debt ratio of
5 52.04%. The proposed cost of long-term debt is 5.59%. These ratios and
6 costs rate are consistent with the actual capital structure values of the
7 Company's parent, Utilities, Inc., as of the end of the Test Year, March 31,
8 2019. When including the proposed cost of equity rate of 10.75% per
9 Company expert witness Dylan D'Ascendis, the resulting proposed overall
10 rate of return is 8.07%.

11 **INCOME TAXES AND TCJA**

12 **Q. WHAT INCOME TAX RATES HAS THE COMPANY UTILIZED IN THIS**
13 **PROCEEDING?**

14 **A.** The Company's revenue requirement calculations utilize the current state
15 income tax rate of 2.5% and federal income tax rate of 21%, for a blended
16 tax rate of 22.98%.

17 **Q. IS THE COMPANY PROPOSING ANY CHANGES TO THE IMPACTS**
18 **AND TREATMENT PERTAINING TO THE TCJA, AS APPROVED IN THE**
19 **SUB 360 RATE CASE?**

20 **A.** Yes. The Company filed its final 2017 federal income tax return in late 2018,
21 and certain adjustments to book balances and reserves related to excess
22 deferred federal income taxes ("EDIT") were calculated and recorded to

1 CWSNC's books. The Company has included the adjusted protected
2 reserve EDIT balance in this proceeding and proposed an updated
3 amortization level, maintaining the 45-year amortization period as approved
4 in Sub 360. The NCUC also approved a 4-year TCJA rider refund
5 mechanism in Sub 360 for CWSNC's unprotected EDIT balance. The
6 Company proposes adjusting the TCJA rider to reflect the updated balance,
7 while modifying the term to two years as of the effective date of the current
8 proceeding. This results in adjusting the TCJA rider surcredit to (0.931%).
9 As authorized in Sub 360, the unprotected EDIT reserve balance is not
10 included in the revenue requirement for the current proceeding. Please see
11 supporting Schedule 10 to W1-10.

12 **TARIFF CHANGES**

13 **Q. WHAT CHANGES TO THE COMPANY'S TARIFF FEES, OUTSIDE OF**
14 **BASE RATES, ARE PROPOSED IN THIS APPLICATION?**

15 **A.** The Company has calculated an updated reconnect fee, to replace the
16 current \$27 charge across its service areas. The proposed fee of \$42 per
17 reconnect is based on the Company's current time and costs to process and
18 complete a customer reconnection, as the \$27 fee was implemented many
19 years ago and does not reflect the Company's current operating costs.
20 Please see supporting Schedule 18 for the details of this calculation.

21 The Company also proposes updates to its connection charge ("CC") for
22 Johnston County (serving the Winston Pointe and White Oak Plantation

1 systems) and Cow Rock Mountain (serving the Lonesome Valley portion of
2 Sapphire Valley). These changes are proposed to better align the CC
3 remittances required for the applicable municipalities and developers.

4 **RATE DESIGN AND DOCKET NO. W-100, SUB 59**

5 **Q. HAS THE COMPANY INCORPORATED IN THIS PROCEEDING ANY**
6 **CONSIDERATIONS RELATED TO THE PENDING SUB 59 DOCKET?**

7 **A.** As legislation authorizing a consumption adjustment mechanism is currently
8 pending in the North Carolina Senate, the Company's proposed rate design
9 in this proceeding does not reflect the use of such a mechanism across its
10 entire customer base. However, in the pending Sub 59 rulemaking
11 proceeding, the NCUC requested regulated water utilities, including
12 CWSNC, to provide information and recommendations for alternative rate
13 mechanisms that would address the competing goals of incentivizing
14 conservation of water with revenue stability of the utility. The Company
15 provided joint comments with Aqua North Carolina, Inc. ("Aqua"), which
16 included a Pilot Program that would be proposed in this base rate case.
17 CWSNC therefore includes in this rate case a proposed Pilot Program, to
18 be applied to its The Point ("Point") subdivision when new rates are
19 effective.

20
21

1 **Q. PLEASE DESCRIBE THE COMPANY'S METHOD FOR IDENTIFYING AN**
2 **APPROPRIATE CUSTOMER GROUP TO IMPLEMENT THE PILOT**
3 **PROGRAM.**

4 **A.** CWSNC utilized multiple criteria to identify the optimal customer group or
5 subdivision to implement the Pilot Program. In order to identify a level of
6 conservation by customers or changes in water use habits, the Company
7 prioritized a customer group which encompassed the following attributes:

- 8 • Year-round owner-occupied residences, as opposed to a community
9 with significant rental activity. This provides a consistent customer
10 group which reflects the usage habits of a non-revolving occupancy
11 scenario.
- 12 • Seasonal usage per customer (bills issued April-December) at least
13 30% higher than non-seasonal months (bills issued January to March)
14 in the Test Year data. Customers with higher seasonal or discretionary
15 usage generally have more opportunity to conserve and realize
16 associated benefits. Point customers averaged 12,344 gallons per
17 month in the seasonal period and 5,207 in the non-seasonal period, a
18 137% seasonal spike within the Test Year data.
- 19 • Average usage per customer for the Test Year of at least 3,000 gallons
20 per month. Similar to the seasonality consideration, this identifies
21 customer groups with room to benefit from conservation. Point

1 customers used an average of 10,557 gallons per month in the Test
2 Year.

3 • Customer groups not on purchased water-driven volumetric rates, as
4 such rate designs are set based on vendor prices and are not as flexible
5 for rate design modification. Point customers are within the Uniform
6 Water Rate Division and the standard uniform rate structure is currently
7 applied.

8 • Large enough customer base to generate sufficient data for analysis.
9 Point customers received 18,310 bills in the Test Year, approximately
10 5.75% of the pro-forma present rate bills expected for Uniform Water
11 residential customers.

12 • Whether supply or peak demand issues are present for CWSNC in
13 serving the customer group. The Point system is strained for supply
14 annually in the summer months due to irrigation, and has utilized an
15 interconnection with the Town of Mooresville to supplement its well
16 supply during peak use periods.

17 • Existing demographics and any affordability issues. Point customers
18 generally have larger homes and properties and are not residing in a low
19 income or otherwise economically distressed subdivision.

20

21

1 **Q. WHAT IS THE COMPANY'S PROPOSED STRUCTURE AND PROCESS**
2 **FOR IMPLEMENTING THE PILOT PROGRAM?**

3 **A.** The Company has concluded that The Point is the best situated of the
4 CWSNC systems to implement a conservation-focused rate design and
5 revenue reconciliation mechanism. The Company therefore proposes a
6 three-tier inclining block volumetric rate design be approved in this rate case
7 for The Point. Please see Schedule F-2 and Schedule E for the proposed
8 water rates for The Point and the resulting proposed revenue level,
9 respectively. The Company calculated the applicable base charge for The
10 Point as 80% of the proposed Uniform Water base charge. The three
11 inclining proposed volumetric blocks are calculated as 80%, 125% and
12 167% of the proposed Uniform Water volumetric charge. The first block
13 size was set at approximately the average non-seasonal monthly
14 consumption per customer, while the second block was set at approximately
15 150% of the average seasonal monthly per customer consumption. This
16 rate design will allow the Company, the Public Staff, and the NCUC to
17 identify changes in seasonal, discretionary consumption when compared to
18 historical activity of The Point. The Company believes that these new price
19 signals will incentivize changes in consumption patterns and therefore
20 support conservation of a limited supply.

21 In addition to the Company's proposed Pilot Program, CWSNC proposes a
22 Revenue Adjustment Mechanism to provide stability to the Company's

1 revenues as additional volumetric revenue volatility is added via the Pilot
2 Program's rates. For each 12-month period after this rate case's final order
3 is effective, the Company will reconcile the residential water customer
4 volumetric revenue of The Point to the level authorized in this rate case.
5 Should the reconciliation identify an over-recovery occurred, the Company
6 will initiate a one-time, flat, per customer surcredit to The Point residential
7 water customers. Should an under-recovery be identified, a percent-of-bill-
8 based surcharge will be initiated for the following 12 months. Any over- or
9 under-recovery will be deferred on the Company's books in anticipation of
10 disposition in the following annual reconciliation process.

11 **Q. WHAT FURTHER RATE DESIGN CONSIDERATIONS HAS THE**
12 **COMPANY INCLUDED IN ITS APPLICATION?**

13 **A.** With the exception of The Point as discussed above and the Corolla
14 Light/Monteray Shores ("CLMS") sewer subdivisions within the Uniform
15 Sewer Rate Division, the Company is not proposing rate design changes to
16 those parameters considered in the Sub 360 rate case – namely, a 52/48
17 ratio of fixed/volumetric water charges.

18 The CLMS sewer subdivision rates have been held flat since NCUC Docket
19 No. W-354, Sub 327, as they have historically had higher fixed and
20 volumetric charges than the remainder of the Uniform Sewer Rate Division.
21 However, the NCUC and Public Staff have cited the need to consider
22 consolidating CLMS sewer rates with the Uniform Sewer rates in a future

1 proceeding as circumstances allow². In this proceeding, the revenue
2 requirement for Uniform Sewer as a whole is sufficient to facilitate a
3 proposed consolidated Uniform Sewer tariff rate structure. Please see
4 Schedules E and F-2 for the proposed consolidated Uniform Sewer rates
5 which are to be applied to CLMS.

6 **Q. WHAT IS THE COMPANY'S POSITION SHOULD THE PENDING HOUSE**
7 **BILL 529 AND/OR THE SUB 59 RULEMAKING PROCEEDING**
8 **CONCLUDE AND AUTHORIZE A RATE MECHANISM FOR THE**
9 **COMPANY THAT DIFFERS FROM CWSNC'S PILOT PROGRAM?**

10 **A.** The Company reserves the right to update its testimony and rate design
11 proposal for this proceeding should the pending legislation and/or generic
12 proceeding authorize the use of alternative rate mechanisms or rate design
13 that differ from the Company's Pilot Program proposal.

14 **ACQUISITION OF RIVERBEND ESTATES AND PACE UTILITIES**

15 **Q. HOW HAS CWSNC ACCOUNTED FOR ITS RECENTLY APPROVED**
16 **ACQUISITION OF RIVERBEND ESTATES AND PENDING ACQUISITION**
17 **OF PACE UTILITIES?**

18 **A.** Pro-forma financials for both Riverbend and Pace are included in CWSNC's
19 Uniform Water and BF/FH/TC (Water and Sewer) Rate Divisions,
20 respectively, in this proceeding. As Riverbend was operated by CWSNC

² NCUC Docket No. W-354, Sub 344, Final Order dated December 7, 2015, Page 20.

1 during the entire Test Year, the Company included Riverbend as part of its
2 AA and UA ledgers as applicable in Schedule B. In addition, the Company
3 has included a Plant Acquisition Adjustment (“PAA”) and Deferred Charges
4 balances for Riverbend consistent with the NCUC Order dated May 16,
5 2019, in Docket No. W-354, Sub 358.

6 At the time of preparation of this testimony, the Pace acquisition remains
7 pending. In anticipation of the completion of the acquisition during this rate
8 case, the Company included Pace O&M, pro-forma revenues and rate base
9 in Schedules A and B as pro-forma adjustments, supported by W1-10
10 Schedule 2. Similar to Riverbend, PAA and deferred due diligence charges
11 related to the acquisition are included in the CWSNC revenue requirement.
12 Please see W1-10 Schedules 6 and 13, respectively, for support of these
13 adjustments.

14 **HURRICANE FLORENCE - DOCKET NO. W-354, SUB 363**

15 **Q. HAS THE COMPANY INCLUDED COST DEFERRALS RELATED TO**
16 **NCUC DOCKET NO. W-354, SUB 363 IN THIS PROCEEDING?**

17 **A.** As of the preparation of this testimony, the Florence Docket is pending a
18 final order from the NCUC. The NCUC also ordered on June 6, 2019, that
19 the Sub 363 docket be consolidated with the current proceeding. The
20 Company has therefore included amortization of deferred costs in this
21 application consistent with its position in the Florence Docket. This includes
22 deferral of O&M expenses, depreciation on replacement infrastructure, and

1 lost revenues related to Hurricane Florence. The Company has reflected a
2 three-year amortization of these impacts as a pro-forma adjustment to
3 Miscellaneous Expense as applicable for the four Rate Divisions. The
4 Company reserves the right to update its filing should additional costs or
5 information received require adjustments to the Company's position in this
6 rate case.

7 **STORM RESERVE FUND**

8 **Q. DOES THE COMPANY PROPOSE ANY FURTHER MECHANISMS TO**
9 **ADDRESS EXTRAORDINARY COSTS INCURRED FROM STORMS?**

10 **A.** Yes. The Company requests that this proceeding establish a Storm
11 Reserve Fund to support extraordinary O&M costs resulting from damages
12 sustained in severe storms such as Hurricane Florence. The
13 implementation of this reserve fund would provide the Company with
14 support for recovery efforts, minimize the need for deferred accounting
15 petitions such as the Sub 363 petition, and smooth the financial impact of
16 such extraordinary costs that are otherwise unable to be considered in the
17 setting of revenue requirement. The Company proposes to create a
18 monthly, flat surcharge for each active customer water and sewer service
19 billed until the reserve threshold of \$250,000 is reached. When the reserve
20 threshold is reached, the Company will suspend the surcharge beginning
21 the following billing month. As costs are incurred and reserve funds are
22 applied, the Company would then re-initiate the surcharge to replenish the

1 reserve. The reserve funds would only be utilized if the Company's storm
2 costs for the last 12 months exceed the level of normalized storm expenses
3 included in the base rate revenue requirement. In the current proceeding,
4 the Company is proposing a base rate recovery of \$47,593 per W1-10
5 Schedule 24. The Company proposes a reserve of \$250,000 to
6 accommodate storms that generate more O&M costs than the recent
7 Hurricane Florence event – a Category 1 storm largely based upon wind
8 intensity, but with heavy rainfall.

9 The Company has calculated a proposed monthly surcharge of \$0.42 per
10 customer service provided (water and/or sewer), based on the reserve
11 threshold of \$250,000 divided by approximately 601,412 monthly water and
12 sewer bills, excluding availability customers, in Schedule E.

13 **DEFERRED ACCOUNT FOR CAPITAL PROJECTS**

14 **Q. IS THE COMPANY ANTICIPATING FILING FOR DEFERRAL OF**
15 **CAPITAL PROJECT COSTS, SEPARATE FROM THIS APPLICATION?**

16 **A.** Yes. CWSNC is filing a request for an accounting order authorizing deferral
17 of costs related to four major projects that are currently in progress and will
18 be placed in-service during the pendency of this rate case. The treatment
19 of these projects has a material impact on the Company's ability to earn its
20 authorized return emanating from its last rate case. The request will include
21 deferral of carrying costs (return and depreciation) on these projects from
22 the in-service dates until the projects are included for recovery in base rates

1 in this case. The four projects are included as pro-forma additions in this
2 rate case: Connestee Falls Wastewater Treatment Plant (“WWTP”), Nags
3 Head WWTP, Fairfield Mountain Automated Meter Reading meters
4 (“AMR”), and Connestee Falls AMR. The nature of these projects is
5 described in the testimony of CWSNC witness J. Bryce Mendenhall. The
6 Company estimates that implementing these projects will create, all else
7 equal, a material drag on earned ROE of 193 basis points compared to that
8 which was authorized in the last rate case. The Company has also included
9 in the current filing certain identified known and measurable O&M
10 adjustments which will result from the implementation of these projects, as
11 well as a calculation of the deferral balance and proposed amortization of
12 the deferral. Please see W1-10 Schedule 26 for the O&M adjustments and
13 W1-10 Schedule 34 for the proposed amortization of the deferral.

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

16 **A.** Yes.

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

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

1 Q Mr. DeStefano, we're going to go through three
2 pieces of testimony here quickly. Did you cause to be
3 filed supplemental direct testimony consisting of eight
4 pages and Supplemental Exhibit 1 consisting of two pages
5 on August the 2nd?

6 A Yes, I did.

7 Q Same questions, do you have changes or
8 corrections?

9 A I believe there was later an amended version of
10 the attachment to that testimony, but otherwise, no
11 changes.

12 Q Okay. If I were to ask you the same questions
13 today, would your answers be the same as when you filed?

14 A They would.

15 MS. SANFORD: We ask that the supplemental
16 testimony be copied into the record as if given orally
17 from the stand, and that Supplemental Exhibit Number 1 be
18 marked, please, for identification.

19 COMMISSIONER BROWN-BLAND: And that motion is
20 allowed.

21

22

23

24

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24

(Whereupon, the prefiled supplemental testimony of Dante DeStefano was copied into the record as if given orally from the stand.)
(Whereupon, DeStefano Supplemental Exhibit 1 was identified as premarked.)

OFFICIAL COPY
Dec 09 2019

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. W-354, SUB 364

In the Matter of Application of Carolina Water Service, Inc.) of North Carolina, Post Office Box) 240908, Charlotte, North Carolina 28244) for Authority to Adjust and Increase Rates) for Water and Sewer Utility Service in All) Service Areas in North Carolina)	SUPPLEMENTAL DIRECT TESTIMONY OF DANTE M. DESTEFANO ON BEHALF OF CAROLINA WATER SERVICE, INC. OF NORTH CAROLINA
---	---

OFFICIAL COPY

Aug 02 2019

SCHEDULE G-3a

August 2, 2019

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

2 **A.** My name is Dante M. DeStefano and my business address is 4944 Parkway
3 Plaza Boulevard, Suite 375, Charlotte, North Carolina 28217.

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

5 **A.** I am Manager of Financial Planning and Analysis for Carolina Water Service,
6 Inc. of North Carolina (“CWSNC” or “Company”).

7 **Q. ARE YOU THE SAME DANTE M. DESTEFANO THAT PREFILED**
8 **DIRECT TESTIMONY IN THIS PROCEEDING?**

9 **A.** Yes, I am.

10 **Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY IN**
11 **THIS PROCEEDING?**

12 **A.** The purpose of my supplemental testimony is to (1) address legislation
13 recently passed by the North Carolina General Assembly and signed into
14 law by the Governor of North Carolina authorizing the use of consumption
15 adjustment mechanisms for water and wastewater utilities, and (2) describe
16 CWSNC’s proposed consumption adjustment mechanism, in light of this
17 new legislation.

18 **Q. ARE YOU SPONSORING ANY SUPPLEMENTAL EXHIBITS OR**
19 **SCHEDULES?**

20 **A.** Yes. I am presenting the attached Supplemental Exhibit #1 (“Supplement
21 to Schedule E”) in support of the Company’s proposed consumption
22 adjustment mechanism.

1 **Q. PLEASE SUMMARIZE THE CONSUMPTION ADJUSTMENT**
 2 **LEGISLATION RECENTLY PASSED BY THE NORTH CAROLINA**
 3 **GENERAL ASSEMBLY.**

4 **A.** House Bill 529 (Session Law 2019-88), ratified by the General Assembly on
 5 June 28, 2019, and signed into law by the Governor on July 8, 2019, adds
 6 a new section to Article 7 of Chapter 62 of the General Statutes and
 7 provides in Section 1 as follows:

8 62-133.12A. Customer usage tracking rate adjustment
 9 mechanisms for water and wastewater rates.

10
 11 In setting rates for a water and wastewater utility in a general
 12 rate proceeding under G.S. 62-133, the Commission may
 13 adopt, implement, modify, or eliminate a rate adjustment
 14 mechanism for one or more of the company's rate schedules
 15 to track and true-up variations in average per customer usage
 16 from levels approved in the general rate case proceeding. The
 17 Commission may adopt a rate adjustment mechanism only
 18 upon a finding by the Commission that the mechanism is
 19 appropriate to track and true-up variations in average per
 20 customer usage by rate schedule from levels adopted in the
 21 general rate case proceeding and the mechanism is in the
 22 public interest.
 23

24 **Q. PLEASE DESCRIBE THE CONSUMPTION ADJUSTMENT MECHANISM**
 25 **THE COMPANY IS PROPOSING IN THIS PROCEEDING.**

26 **A.** The Company is proposing a consumption adjustment mechanism that will
 27 annually adjust revenues to reflect differences between average per
 28 customer usage in a given year compared to average customer usage
 29 reflected in this general rate case proceeding. Please see Supplement to

1 Schedule E, attached, which summarized the proposed authorized use per
2 customer per month for each Rate Division (page 1) and provided a sample
3 calculation to true up the variance in actual versus authorized usage per
4 customer (page 2).

5 As shown in Supplement to Schedule E, page 2, the authorized combined
6 residential and commercial usage for each Rate Group (i.e., those groups
7 of customers with the same volumetric rate) within a Rate Division would be
8 divided by the End of Period (“EOP”) customers times 12 months to
9 determine the authorized usage per customer per month for the Rate
10 Division. This figure would be compared to the actual usage per customer
11 per month for each 12-month period after new base rates are effective. The
12 resulting usage variance would be multiplied by the weighted approved
13 volumetric rate for the Rate Division, times the EOP customers, times
14 12 months to calculate the dollar variance to authorized revenues.

15 Should actual usage per customer be less than the authorized level, the
16 revenue variance would be surcharged to customers as a percent-of-bill-
17 based charge for the following 12 months. Should actual usage per
18 customer be more than the authorized level, the revenue variance would be
19 credited as a one-time, flat refund per customer. This surcharge/surcredit
20 method rewards low-use customers with a credit for a higher proportion of
21 their bill compared to a high-use customer, while the surcharge increases
22 bills to a greater degree for high-use customers versus low-use customers.

1 Any accumulated over- or under-recovery will be deferred on the
2 Company's books in anticipation of disposition in the following annual
3 reconciliation process. The Company proposes to file its
4 surcharge/surcredit calculations within 45 days of the end of the first year
5 new rates are effective in this proceeding, and requests that the NCUC
6 issue its Order on the Company's proposal within 45 days from the filing
7 date.

8 **Q. IS THIS PROPOSED CUSTOMER ADJUSTMENT MECHANISM**
9 **CONSISTENT WITH THE NEW LEGISLATION?**

10 **A.** Yes. As prescribed by the legislation, our proposed consumption
11 adjustment mechanism will track and true-up variations in average per
12 customer usage from levels approved in this general rate case proceeding.

13 **Q. IS THE COMPANY'S PROPOSED CONSUMPTION ADJUSTMENT**
14 **MECHANISM IN THE PUBLIC INTEREST?**

15 **A.** Yes. This mechanism will balance the risk and impact on customers and
16 shareholders of levels of water and wastewater consumption that are higher
17 or lower than those levels of consumption that are used to set the
18 Company's base rates. This mechanism will provide revenue stability in the
19 face of declining usage among customers as well as seasonal variations
20 that are outside the Company's control.

1 CWSNC is not alone in its vulnerability to declining consumption. There are
2 numerous studies and reports from across the country in recent years that
3 recognize this trend.¹ In fact, at its November 2013 meeting, NARUC
4 recognized the continued trend in declining consumption, and expressly
5 supported alternative rate mechanisms to address these concerns.²

6 Generally, an increased conservation ethic among customers, as well as
7 the proliferation of efficient water fixtures (i.e., modern irrigation and
8 household plumbing devices) that conform to increasingly strict
9 manufacturing standards,³ are contributing to a gradual and persistent
10 decline in consumption per customer. These factors are out of the control
11 of the Company and will continue to drive a decline in consumption for the
12 foreseeable future, as older, less-efficient fixtures are replaced with more
13 efficient units and new homes are built at current efficiency standards.⁴

14 Notably, the water and wastewater industries operate with a cost structure
15 that is mostly fixed – indeed, the Company’s current costs are
16 approximately 80% fixed; however, CWSNC’s revenue is generated in large
17 portion by the variable or volumetric consumption component of rates.

¹ <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)

² <https://pubs.naruc.org/pub.cfm?id=53A0858A-2354-D714-5175-3BF53CDDC767>

³ Energy Policy and Conservation Acts of 1992 and 2005, Energy Independence & Security Act of 2007

⁴ Naumick, Gary A., P.E., Trends in Residential Water Usage and its Impact on Water Utility Financial Planning, AWWA Utility Management Conference, February 10, 2011.

1 Accordingly, declining usage and seasonal usage fluctuations can result in
2 a utility failing to recover its fixed costs of providing utility service.

3 Additionally, the Company's revenue requirement is set based on an
4 expected "normal" consumption level, which does not account for the
5 considerable seasonal weather variations which can occur—it is highly
6 unlikely that any particular year will result in exactly the level of consumption
7 utilized in the setting of rates. The proposed mechanism helps to alleviate
8 the negative impact to the Company of declining consumption and
9 significant seasonal weather variation and protects customers from over-
10 collection in an increasing consumption scenario.

11 For all of these reasons, we believe the proposed mechanism is in the public
12 interest.

13 **Q. WILL THIS PROPOSED CONSUMPTION ADJUSTMENT MECHANISM**
14 **REPLACE THE COMPANY'S PROPOSED CONSERVATION RATE**
15 **PILOT PROGRAM ("PILOT PROGRAM")?**

16 **A.** No. The Company proposes to implement the proposed consumption
17 adjustment mechanism for all volumetric-billed customers except for those
18 proposed to participate in the Conservation Rate Pilot Program. The
19 proposal for the Pilot Program emanated from the Company's comments in
20 NCUC Docket No. W-100, Sub 59 ("Sub 59"). In Sub 59, the Company
21 concluded that the best path forward in addressing the conservation

1 incentive, in consideration of Public Staff's comments, was to implement a
2 trial tariff designed to address and provide analytic data on customer
3 consumption patterns. The Company still proposes to implement the
4 Pilot Program as included in its initial Rate Case Application, with tiered
5 inclining block rates, because the Pilot Program is focused primarily on
6 conservation and driving customer usage patterns, while the proposed
7 consumption adjustment mechanism is focused primarily on revenue
8 stability despite a persistent decline trend and seasonal fluctuations.

9 **Q. IS THIS SUPPLEMENTAL DIRECT TESTIMONY TRUE AND ACCURATE**
10 **TO THE BEST OF YOUR KNOWLEDGE, INFORMATION, AND BELIEF?**

11 **A.** Yes.

12 **Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL DIRECT**
13 **TESTIMONY?**

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

1 Q Did you cause to be filed rebuttal testimony
2 consisting of 14 pages on November 20th?

3 A Yes.

4 Q Do you have changes or corrections?

5 A No.

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

8 A They would.

9 MS. SANFORD: We ask that his rebuttal
10 testimony consisting of 14 pages be entered into the
11 record as if given orally from the stand, please.

12 COMMISSIONER BROWN-BLAND: Without my looking,
13 can you double check for me? I had a note that I had 21
14 pages --

15 MS. SANFORD: Twenty-one (21) pages?

16 COMMISSIONER BROWN-BLAND: On the rebuttal.

17 MS. SANFORD: On rebuttal? Your note might be
18 better than my note.

19 COMMISSIONER BROWN-BLAND: I believe it says 1
20 of 21 at the bottom.

21 MS. SANFORD: Did you say 21?

22 COMMISSIONER BROWN-BLAND: Yes.

23 MS. SANFORD: Well, your notes are better than
24 mine. Twenty-one (21). Thank you.

1 COMMISSIONER BROWN-BLAND: So repeat for me,
2 you asked that the rebuttal testimony be --

3 MS. SANFORD: That the rebuttal testimony
4 consisting of 21 pages, I was wrong, be entered into the
5 record as if given orally from the stand.

6 COMMISSIONER BROWN-BLAND: All right. That
7 motion will be allowed.

8 MS. SANFORD: And I apologize for my misread.

9 COMMISSIONER BROWN-BLAND: That's no problem.
10 Just trying to make sure it's clear in the record.

11 MS. SANFORD: Well I appreciate the help.

12 (Whereupon, the prefiled rebuttal
13 testimony of Dante M. DeStefano was
14 copied into the record as if given
15 orally from the stand.)

16

17

18

19

20

21

22

23

24

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. W-354, SUB 364

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

OFFICIAL COPY

Dec 09 2019

Pre-Filed Rebuttal Testimony
of
Dante DeStefano

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

November 20, 2019

1 **Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS**
2 **ADDRESS FOR THE RECORD.**

3 **A.** My name is Dante DeStefano and I am employed as the Director of
4 Financial Planning and Analysis for Carolina Water Service, Inc. of North
5 Carolina ("CWSNC" or "Company"), 4944 Parkway Plaza Boulevard, Suite
6 375, Charlotte, North Carolina 28217. Effective October 1, 2019 my title
7 changed from Manager of Financial Planning and Analysis to Director of
8 Financial Planning and Analysis for CWSNC.

9 **Q. ARE YOU THE SAME DANTE DESTEFANO WHO SUBMITTED CASE-**
10 **IN-CHIEF AND SUPPLEMENTAL TESTIMONY ON BEHALF OF**
11 **CWSNC IN THIS PROCEEDING?**

12 **A.** Yes, I am.

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

14 **A.** The purpose of my rebuttal testimony is to identify points of agreement
15 between the positions of Public Staff and the Company, as well as explain
16 where and why the Company disagrees with certain recommendations of
17 the Public Staff. Mr. Mendenhall's rebuttal testimony addresses the issue
18 of water loss, and Mr. D'Ascendis' rebuttal testimony addresses the issue
19 of cost of equity. I will also address witness Casselberry's comments
20 regarding the Company's billing data as supplied in this proceeding.

21 **Q. HAVE YOU REVIEWED THE FILED DIRECT TESTIMONY AND THE**
22 **SUPPLEMENTAL EXHIBITS OF THE PUBLIC STAFF WITNESSES,**
23 **INCLUDING ALL RELATED EXHIBITS AND REVISED EXHIBITS?**

1 A. Yes.

2 Q. DOES THE COMPANY AGREE WITH ANY OF PUBLIC STAFF'S
3 ADJUSTMENTS TO THE COMPANY'S REQUESTED REVENUE
4 REQUIREMENT?

5 A. Yes. The Company believes it is in agreement with the Public Staff on a
6 number of adjustments to the filing, as a result of the ordinary negotiated
7 process of mutual correction of errors, explanations, and provision of
8 additional information, which was largely completed just prior to the
9 Public Staff's filing of Revised Exhibits on Monday, November 18, 2019. It
10 should be noted that the Public Staff and the Company anticipate filing a
11 Joint Partial Stipulation of Settlement prior to the evidentiary hearing in
12 this proceeding. It will both memorialize the agreed-upon items, and will
13 contain pertinent terms for other items still requiring further update (such
14 as anticipated regulatory commission expenses incurred). As such, I will
15 not speak to those items in this rebuttal testimony.

16 Q. DOES THE COMPANY DISAGREE WITH ANY ADJUSTMENTS OR
17 OTHER POSITIONS PUT FORTH BY THE PUBLIC STAFF IN ITS
18 DIRECT TESTIMONY AND/OR REVISED EXHIBITS?

19 A. Yes. I will detail the Company's rebuttal regarding the following issues in
20 this proceeding:

- 21 ▪ Appropriateness of deferred accounting treatment for the Company's
22 automated meter reading ("AMR") installation projects;
- 23 ▪ Plant Acquisition Adjustment ("PAA") amortization expense;

- 1 ▪ Rent expense related to the Water Service Corporation (“WSC”)
- 2 Chicago office;
- 3 ▪ Insurance expense related to property coverage;
- 4 ▪ Application of Hurricane Florence insurance proceeds;
- 5 ▪ Storm Recovery expense and the Storm Reserve Fund;
- 6 ▪ Tariff Rate Design;
- 7 ▪ Proposed Conservation Rate Pilot Program (“Pilot Program”); and
- 8 ▪ Proposed Consumption Adjustment Mechanism (“CAM”).

9 **Q. WHAT ACCOUNTING AND RATEMAKING DID THE COMPANY**
10 **PROPOSE WITH RESPECT TO ITS AMR PROJECTS?**

11 **A.** In a contemporaneously filed petition under Docket No. W-354, Sub 365
12 (“Sub 365”), the Company sought Commission authority to defer its net
13 post-in-service depreciation and financing costs related to its AMR
14 installation projects in the Fairfield Mountain and Connestee Falls
15 systems, as well as its replacements of the wastewater treatment plants
16 (“WWTPs”) at the Nags Head and Connestee Falls systems, from the in-
17 service dates until the date of an Order in this rate case.¹ Our revenue
18 requirement calculations in this case reflect deferral and subsequent
19 recovery through rates of the resulting deferred amounts for each of the
20 four capital projects.

21 **Q. WHAT IS PUBLIC STAFF’S POSITION ON THE COMPANY’S**
22 **PROPOSAL?**

¹ Procedural note: The Company has requested merger of the Sub 365 “deferral” docket with the instant, Sub 364 rate case application docket. The Commission has since ruled to consolidate the Sub 365 docket with this proceeding and the Sub 363 docket.

1 AMR projects) is significant and material, and it is appropriate to
2 consider the totality of the adverse regulatory lag impacts. All four
3 projects are part of the Company's pending general rate case and all
4 four of the projects, though beneficial to customers, combine to
5 adversely impact the Company's financial condition due to regulatory
6 lag. Accordingly, all four projects should be evaluated collectively for
7 deferred accounting treatment, rather than separately.

- 8 ■ If only the isolated financial impact of the AMR meter projects is
9 considered, that financial impact supports deferred accounting
10 treatment, especially in light of the Company's current earned ROE.
11 Without deferred accounting treatment for the AMR meter projects, the
12 Company will, according to Public Staff, experience approximately a
13 22-basis point negative impact on its earned ROE. At the same time,
14 the Company is not earning a return anywhere close to its current
15 authorized overall rate of return of 7.75%. Indeed, the Company's
16 actual earned overall rate of return during the test year for this rate
17 case was only 3.69%.

18 **Q. WHAT DID THE COMPANY PROPOSE WITH RESPECT TO**
19 **CALCULATION OF PAA AMORTIZATION EXPENSE?**

- 20 **A.** The Company's revenue requirement utilized the approved PAA
21 amortization rates from the Docket W-354, Sub 360 ("Sub 360") Final
22 Order -- 2.47% and 3.53% for its Water and Sewer Rate Divisions,
23 respectively.

1 **Q. WHAT DOES PUBLIC STAFF PROPOSE WITH RESPECT TO PAA**
2 **AMORTIZATION EXPENSE?**

3 **A.** Public Staff Witness Feasel proposes an adjustment to the PAA-related
4 accumulated amortization amounts to include actual general ledger
5 additions made on the Company's books as of September 30, 2019. Ms.
6 Feasel also proposes to adjust PAA amortization to include an annualized
7 level of amortization based on Public Staff's adjusted level of PAA
8 amortization expense. The Public Staff's amortization expense is based
9 on Public Staff's recommended level of PAA times an amortization
10 percentage equal to the composite depreciation rate for the Staff's
11 adjusted level of direct plant in service for each Rate Division.

12 **Q. DO YOU AGREE WITH THE PUBLIC STAFF'S PROPOSAL?**

13 **A.** CWSNC does not object to the Public Staff position on the levels of PAA
14 and related accumulated amortization; however, the Company disagrees
15 on the PAA amortization rates to be used. The Sub 360 Order authorized
16 specific PAA rates and we are proposing to use those same authorized
17 rates in this proceeding. In contrast, the Public Staff is proposing the same
18 basis for amortization rates as it proposed in Sub 360, which the
19 Commission rejected in that case.

20 **Q. WHAT DID THE COMPANY PROPOSE WITH RESPECT TO RENT**
21 **EXPENSE RELATED TO THE WSC'S CHICAGO OFFICE?**

22 **A.** The Company proposed in its initial filing a rent expense level per the
23 lease agreement for the new office located at 550 West Monroe,

1 calculated as a straight-line average of the 15-year term scheduled
2 payments. The Company provided an updated calculation to Public Staff
3 subsequent to its October 4, 2019 update filing in this proceeding, which
4 utilized a similar straight-line average calculation, but included the impact
5 of rent abatements, also calculated as a straight-line average over the
6 15-year lease term.

7 **Q. WHAT DOES PUBLIC STAFF PROPOSE WITH RESPECT TO RENT**
8 **EXPENSE?**

9 **A.** Public Staff witness Feasel, per Revised Exhibit I, Schedule 3-11,
10 proposes to adjust the rent expense for the Chicago office lease based on
11 the upcoming year's scheduled rental expense per the lease, offset by a
12 straight-line credit from the total abatements and tenant improvement
13 credits over the life of the lease.

14 **Q. DO YOU AGREE WITH THE PUBLIC STAFF'S PROPOSAL**
15 **REGARDING RECOVERY OF RENT EXPENSE FOR THE CHICAGO**
16 **OFFICE? IF NOT, PLEASE EXPLAIN WHY.**

17 **A.** The Company recommends the expenses that will be actually booked on
18 a known and measurable basis be utilized for ratemaking in this
19 proceeding. The Chicago office lease payment schedule, notwithstanding
20 the aforementioned rent incentives, requires escalating payments that
21 increase by 3% annually. The Company believes that proper accounting
22 consistent with Generally Accepted Accounting Principles requires the
23 total lease incentives (i.e., abatements and improvement credits) to be

1 combined with the total scheduled lease payments for the lease term and
2 a straight-line average of the net expense be booked to rent expense.² In
3 effect, the accounting requirements necessitate a straight-line recognition
4 of scheduled rent payments and rent incentives, which is consistent with
5 the Company's updated position, while Public Staff's position does not
6 utilize a straight-line recognition of the scheduled rent payments. The
7 Company therefore recommends rent expense inclusion in the revenue
8 requirement consistent with the proper accounting that the Company
9 expects to follow.

10 **Q. WHAT DID THE COMPANY PROPOSE WITH RESPECT TO**
11 **INSURANCE EXPENSE?**

12 **A.** The Company's application proposed insurance expense of \$664,043.
13 The Company's October 4, 2019 update filing adjusted this amount to
14 \$847,827, inclusive of estimated policy renewal premiums that were not
15 yet finalized. Corix Infrastructure Inc. ("CII" or "Corix"), the parent company
16 of UI, has recently completed a thorough review of its various insurance
17 policies which has resulted in some consolidation and resetting of
18 coverage levels. The supporting documentation has only become

² See FASB Technical Bulletin 85-3, Response 2:
<https://www.fasb.org/cs/BlobServer?blobkey=id&blobwhere=1175820930623&blobheader=application%2Fpdf&blobcol=urldata&blobtable=MungoBlobs;>

FASB Technical Bulletin 88-1, Response 7:
https://www.fasb.org/cs/BlobServer?blobkey=id&blobnocache=true&blobwhere=1175820928519&blobheader=application/pdf&blobheadername2=Content-Length&blobheadername1=Content-Disposition&blobheadervalue2=107679&blobheadervalue1=filename=ftb_88-1.pdf&blobcol=urldata&blobtable=MungoBlobs;

1 available as of November 12, 2019, so Public Staff did not have an
2 opportunity to reflect this new information in its Direct Testimony. The
3 Company has since provided to the Public Staff updated insurance
4 premium calculations, as well as third-party documentation supporting the
5 policy renewal premiums effective November 1, 2019. Of note, the
6 Company's property policy was consolidated with its Corix parent's
7 various subsidiaries and will be allocated based on property replacement
8 cost values covered for each subsidiary.

9 **Q. WHAT DOES PUBLIC STAFF PROPOSE WITH RESPECT TO**
10 **INSURANCE EXPENSE?**

11 **A.** Public Staff Witness Feasel has updated her testimony position via
12 Revised Exhibit I, Schedule 3-12. This revised position accounts for the
13 updated policy premium information provided by the Company, and
14 utilizes an allocation methodology for property insurance coverage based
15 on CWSNC's proportion of covered property within the consolidated
16 group.

17 **Q. DO YOU AGREE WITH THE PUBLIC STAFF'S PROPOSAL IN**
18 **REVISED EXHIBIT I, SCHEDULE 12? IF NOT, PLEASE EXPLAIN WHY.**

19 **A.** The Company recognizes that the update of insurance policy renewal
20 information to the Public Staff did not initially include an updated Schedule
21 of Values ("SOV") which supports CWSNC's proportion of the overall
22 consolidated group of property covered. The Company has since provided
23 support for the property coverage levels for the Corix subsidiaries to the

1 Public Staff and recommends that the premium of \$1,877,143 (less
2 commission fees billed separately) for Corix's US subsidiaries be allocated
3 based on CWSNC's 17.54% proportion of property covered in the updated
4 SOV, resulting in a CWSNC allocated expense of \$279,912.

5 **Q. WHAT DID THE COMPANY PROPOSE WITH RESPECT TO**
6 **RECOGNITION OF HURRICANE FLORENCE INSURANCE**
7 **PROCEEDS?**

8 **A.** Subsequent to the filing of the current rate case, the Company received
9 proceeds from its insurer for a portion of the costs incurred that were
10 related to damage sustained from Hurricane Florence on its water and
11 sewer systems. In its October 4, 2019 update filing, the Company
12 recognized as a regulatory liability the receipt of insurance proceeds that
13 recovered costs incurred to replace damaged assets due to Hurricane
14 Florence, which struck North Carolina in September 2018. The Company
15 also recognized a portion of the proceeds received as an offset to
16 operating expenses requested to be deferred in Docket No. W-354, Sub
17 363 ("Sub 363"), since consolidated with the current proceeding. It should
18 be noted that the Company received an overpayment of its requested
19 claims, as the insurance company provided reimbursement of contractor
20 costs that had not been paid by the Company but were directly reimbursed
21 to the contractors themselves, and only included in its update filing the
22 actual proceeds amount received net of overpayment. The Company has
23 a significant dollar amount for a second claim submission still under

1 review by its insurer, and there is therefore a potential for further proceeds
2 to be received in the next few months.

3 **Q. WHAT DOES PUBLIC STAFF PROPOSE WITH RESPECT TO**
4 **RECOGNITION OF HURRICANE FLORENCE INSURANCE PROCEEDS**
5 **RECEIVED TO-DATE?**

6 **A.** Public Staff Witness Feasel proposes to apply the insurance proceeds
7 proportionally across the capital investments made for replacement of
8 damaged assets, as well as across the requested deferred operating
9 expense activity. However, the Public Staff calculation also includes the
10 portion of funds received that is an overpayment of claims resolved to-
11 date. The Public Staff has noted to the Company that it is applying the
12 overpayment funds against the Company's replacement assets and
13 operating expenses deferred to reflect the full amount of proceeds
14 received.

15 **Q. DO YOU AGREE WITH THE PUBLIC STAFF'S PROPOSED**
16 **RECOGNITION OF HURRICANE FLORENCE INSURANCE PROCEEDS**
17 **RECEIVED? IF NOT, PLEASE EXPLAIN WHY.**

18 **A.** The Company recommends that the actual proceeds received, excluding
19 overpayments, be utilized for offsetting the Company's incurred capital
20 and operating costs related to Hurricane Florence. The Company has also
21 stressed to the Public Staff, and in this testimony, that should no further
22 claims be deemed recoverable from insurance, it would return the
23 overpayment to the insurer. While it is possible that the Company could

1 recover additional funds from its insurer due to still-pending claims being
2 resolved favorably, it would be improper and an unfair penalty to CWSNC
3 to recognize amounts beyond those known and measurable for claims
4 resolved to-date in this proceeding. For these reasons, CWSNC requests
5 that the Commission reject the Public Staff's adjustment.

6 **Q. PLEASE DESCRIBE THE COMPANY'S PROPOSED STORM RESERVE**
7 **FUND AND RELATED STORM RECOVERY EXPENSE.**

8 **A.** The Company proposed the establishment of a Storm Reserve Fund,
9 which would initiate a surcharge to customers in order to fund a \$250,000
10 reserve to be utilized when expenses are incurred due to storm events
11 that exceed the level of storm recovery costs included in base rates. The
12 Company recommended using a three-year average of storm expenses,
13 excluding Hurricane Florence expenses from 2018, to be used for setting
14 base rates.

15 **Q. WHAT DOES PUBLIC STAFF PROPOSE WITH RESPECT TO STORM**
16 **RECOVERY EXPENSE AND THE PROPOSED STORM RESERVE**
17 **FUND?**

18 **A.** The Public Staff opposes the creation of the Storm Reserve Fund, on the
19 basis that the Company's proposal would ensure an over-recovery and
20 therefore is unfair to customers. Further, Public Staff proposes to use a
21 ten-year average of storm costs to set the amount of storm recovery
22 expense to include in base rates.

23 **Q. DO YOU AGREE WITH THE PUBLIC STAFF'S PROPOSAL?**

1 **A.** Yes, in part. We do not agree with Public Staff's position rejecting the
2 creation of a Storm Reserve Fund. First, as history demonstrates, storm
3 recovery costs can be volatile, unpredictable, and largely beyond the
4 Company's control. Additionally, as seen with Hurricane Florence and
5 demonstrated in Sub 363, a single storm event can cause material
6 impacts to the Company's financial status. The use of a reserve fund will
7 allow the Company to recover the true costs of storm damage recovery
8 without the need to use other funds already allocated to other necessary
9 activities. As noted by witness Henry in his direct testimony, building an
10 estimated amount into base rates by definition will either over-compensate
11 or under-compensate the utility for its storm damage remediation costs.
12 However, absent filing for deferred accounting treatment, as was done in
13 Sub 363, the Company has no available recourse to recover costs related
14 to major storm events. Our proposal for a Storm Reserve Fund recognizes
15 that the cost to restore service following a storm is a reasonable and
16 necessary cost of providing service and, because this can be volatile, the
17 proposed reserve fund provides a means to reflect in the price for water
18 and wastewater service the cost of storm damage recovery. Further, storm
19 damage recovery is a vital utility activity, involving around-the-clock
20 restoration efforts. Our proposed reserve fund mitigates the potential for a
21 catastrophic storm to erode the Company's earnings and impair the
22 Company's financial ability; impacts that adversely affect customers

1 because they lead to increasing capital costs and diminish resources for
2 other needs.

3 While we differ with the Public Staff's position on the propriety of a Storm
4 Reserve Fund, we recognize the Public Staff's point that our proposed
5 reserve fund is asymmetrical with regard to the level of costs recovered in
6 base rates. Accordingly, we revise our Storm Reserve Fund proposal as
7 follows: CWSNC will track the balance of the storm recovery costs,
8 calculating any over-recovery or under-recovery by comparing the level of
9 storm damage expenses in comparison to recovery in base rates. If the
10 incurred expense is less than the amount reflected in the revenue
11 requirement, the Company will defer the over-recovery to the Storm
12 Reserve Fund regulatory liability; if the incurred expense exceeds the
13 amount included in the revenue requirement, the Company will draw from
14 the Storm Reserve Fund regulatory liability to offset the excess expenses.
15 The cumulative net regulatory liability balance would be maintained at the
16 \$250,000 threshold as originally requested, and the inclusion of over-
17 recoveries that occur would mitigate the need for customer charges to
18 replenish the fund. To accomplish this regulatory liability accounting, the
19 Commission's Order should provide for prospective rate adjustments
20 related to the reserve fund, either upward or downward, to recover from
21 customers or return to customers the variance from the \$250,000
22 threshold in the regulatory liability balance.

1 Finally, we disagree with the Public Staff's proposal to calculate the
2 amount of storm damage recovery expenses in base rates using a 10-year
3 historical average of such costs. Again, recent history suggests that storm
4 activity is increasing in frequency and severity. Additionally, setting the
5 expense recovery level at a 3-year average allows for a higher baseline
6 recovery level, allowing for greater possibility of additional funds being
7 generated to replenish the Storm Reserve Fund as modified above and
8 mitigate the need for surcharges. For these reasons, we believe the
9 proposed 3-year average of storm damage recovery costs should be used
10 to set the amount to be reflected in base rates.

11 **Q. WHAT DID THE COMPANY PROPOSE WITH RESPECT TO A**
12 **CONSERVATION RATE PILOT PROGRAM IN THIS PROCEEDING?**

13 **A.** In our application, we proposed a Conservation Rate Pilot Program be
14 initiated for The Point Subdivision, along with a Revenue Adjustment
15 Mechanism, in response to the NCUC's Docket No. W-100, Sub 59
16 ("Sub 59").

17 **Q. WHAT DOES THE PUBLIC STAFF PROPOSE WITH RESPECT TO THE**
18 **COMPANY'S PROPOSED PILOT PROGRAM?**

19 **A.** The Public Staff opposes the proposed Pilot Program and recommends
20 that the Commission reject it. The Staff's primary rationale is that a Pilot
21 Program should be applicable to all customers, not a small subset, and
22 that The Point Subdivision customers are not average or typical customers
23 within the Company's service area.

1 **Q. WHAT IS THE COMPANY'S REBUTTAL POSITION WITH RESPECT**
2 **TO THIS PROPOSED PILOT PROGRAM?**

3 **A.** The Company has filed a notice to the NCUC withdrawing our proposed
4 Pilot Program from consideration in this case. The Company notes that
5 Sub 59 is still a pending docket with the NCUC, and coupled with the
6 recently initiated Docket No. W-100, Sub 61 ("Sub 61"), expects the
7 considerations that prompted the Company's proposed Pilot Program to
8 be resolved in the Sub 59 and Sub 61 proceedings.

9 **Q. WHAT DID THE COMPANY PROPOSE WITH RESPECT TO A**
10 **CONSUMPTION ADJUSTMENT MECHANISM?**

11 **A.** I submitted supplemental testimony on August 2, 2019 which proposed a
12 Consumption Adjustment Mechanism be approved in this Docket, after the
13 passage of authorizing legislation by the North Carolina General
14 Assembly, signed by the Governor on July 8, 2019.

15 **Q. WHAT IS THE PUBLIC STAFF'S POSITION WITH RESPECT TO THIS**
16 **PROPOSED CONSUMPTION ADJUSTMENT MECHANISM?**

17 **A.** The Public Staff opposes the Company's proposed consumption
18 adjustment mechanism, and proposes an alternative mechanism that,
19 among other things, includes a significant change in the Company's
20 current rate design allocation of fixed and volumetric revenues for water
21 and sewer.

22 **Q. WHAT IS THE COMPANY'S REBUTTAL POSITION WITH RESPECT**
23 **TO THE PROPOSED CONSUMPTION ADJUSTMENT MECHANISM?**

1 **A.** Although the authorizing legislation for a consumption adjustment
2 mechanism has been signed into law, the Company recently filed a notice
3 with the NCUC that it is withdrawing its proposal for implementation of
4 such a mechanism in this rate case. We recognize that the Commission
5 has recently opened a rulemaking on this subject under Sub 61 which will
6 provide guidance on the design and implementation of consumption
7 adjustment mechanisms. Sub 61 will allow all interested regulated water
8 companies in North Carolina to participate in a more comprehensive and
9 thorough process than can be included in the scope of the current rate
10 case. Additionally, the Company recognizes that the recent initiation of the
11 rulemaking process results in a timeline that likely extends beyond the
12 resolution of the current proceeding, especially considering the significant
13 implications of such a mechanism to the setting of base rates and future
14 regulatory proceedings and requirements.

15 **Q. WHAT DID THE COMPANY PROPOSE WITH RESPECT TO RATE**
16 **DESIGN?**

17 **A.** The Company proposes to maintain the fixed and volumetric rate
18 recovery proportions approved in Sub 360 by the Commission – a
19 52%/48% fixed/volume ratio for the uniform water rate division, and
20 80%/20% fixed/volume ratio for the uniform sewer rate division, as well
21 as maintain the existing ratios for its Bradfield Farms/Fairfield
22 Harbour/Treasure Cove rate divisions.

1 **Q. WHAT DOES PUBLIC STAFF PROPOSE WITH RESPECT TO RATE**
2 **DESIGN?**

3 **A.** The Public Staff has proposed two recommended rate designs: one with a
4 consumption adjustment mechanism and one without a consumption
5 adjustment mechanism. The rate design without the consumption
6 adjustment mechanism utilizes a 45%/55% ratio of fixed charge to
7 volumetric charge for water, and a 65%/35% ratio of fixed charge to
8 volumetric charge for sewer. These ratios are comparable to those
9 proposed by the Public Staff in CWSNC's last rate case.

10 **Q. DO YOU AGREE WITH THE PUBLIC STAFF'S PROPOSAL? IF NOT,**
11 **PLEASE EXPLAIN WHY.**

12 **A.** We do not agree with Public Staff's position concerning the fixed charge to
13 volumetric charge ratios for water and sewer rate designs for the current
14 proceeding, for several reasons. First, the Public Staff's proposed rate
15 designs represent fairly significant changes, especially with regard to
16 customer bill impacts. Given the potential for significant customer billing
17 volatility and complaints (as occurred following the Company's W-354,
18 Sub 336 rate case, which resulted in significant rate design changes for
19 sewer customers), we believe a more cautious and incremental approach
20 is prudent at this time. Additionally, as noted earlier in this testimony, the
21 Commission is in the midst of a generic proceeding addressing rate
22 design, as well as a rulemaking proceeding on a revenue-related
23 alternative rate mechanism, and we believe it would be appropriate to wait

1 for guidance from the Commission upon the conclusion of those generic
2 proceedings before making any rate design changes in this proceeding –
3 let alone the significant changes proposed by the Public Staff.³ It is
4 important to note that not only would customers' bills become more
5 volatile under the Public Staff's proposal, but the Company's revenue
6 levels would become more unstable as well. The Company agrees with
7 the Commission's rationale in the Sub 360 Order, page 107, regarding the
8 existing water ratio: "The Commission concludes that such rate design is
9 fair and reasonable to both CWSNC and its customers as it appropriately
10 balances the competing interests involved..." This rationale remains true
11 in this proceeding, at least until we receive Commission guidance from the
12 pending generic proceedings. Without a consumption adjustment
13 mechanism authorized in this rate case, it is prudent and reasonable to
14 maintain the current balance between fixed and volumetric charges in our
15 rate structure until a large-scale policy and process is codified and
16 implemented on a consistent basis for North Carolina water and sewer
17 utilities, which would allow for more comprehensive and unified customer
18 education measures and messaging as to the priorities and rationales
19 behind the resulting rate design.

20 **Q. DOES THE COMPANY HAVE A RESPONSE TO THE CONCERNS IN**
21 **THE DIRECT TESTIMONY OF PUBLIC STAFF WITNESS**
22 **CASSELBERRY RELATED TO BILLING DATA?**

³ In Public Staff witness Junis' testimony, page 18, it is acknowledged that the timing of the rulemaking Docket W-100, Sub 61 causes practicability concerns with implementing a consumption adjustment mechanism in the current proceeding.

1 **A.** Yes. The Company recognizes that witness Casselberry's identified
2 several issues with the billing data provided by the Company in its initial
3 filing. The Company worked with witness Casselberry during the case to
4 reconcile the data in order to provide accurate information upon which
5 rates can be set in this proceeding, and the Company does not object to
6 witness Casselberry's pro-forma present rate revenues as a result.

7 It should be noted that the data provided in this proceeding was billing
8 data, not active customer count data, which would more closely align with
9 witness Casselberry's expectations as described on page 15, lines 18-30
10 of her Direct Testimony. Billing data should not be expected to be as
11 stable as active customer count data, as it is subject to much more volatile
12 activity on a going basis. For example, customers may receive a standard
13 monthly bill in a particular month, but also a final bill at move-out in the
14 same month, which would increase billed days and number of bills issued
15 for that month. In addition, the Company's billing cycles may vary by a few
16 days in order to align with scheduling of meter readers and weekends or
17 holidays. This can cause some variability in billed days from month to
18 month, as well as an occasional month where two reads are obtained and
19 bills are released. These nuances are reasonable to reflect in a standard
20 bill analysis that supports the activity in a given Test Year, though the
21 Company recognizes that certain adjustments to this activity may be
22 needed when considering pro-forma revenue projections.

1 The Company and its parent companies are in the process of
2 implementing significant upgrades to their software packages and
3 systems, and anticipate an improved capacity for robust reporting and
4 data collection in the near future. Corix has also added a billing analyst to
5 its staff that assists in creating custom reports to support regulatory and
6 compliance requirements. The Company is anticipating no issues in
7 complying with reporting or filing requirements or requests in future rate
8 cases or that may emanate from authorized alternative rate mechanisms.

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

11 **A.** Yes, it is.

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

13 **A.** Yes.

1 MS. SANFORD: And so just as sort of an
2 orientation to where we are here, this panel is here, of
3 course, for any questions the Commission has. We have a
4 settlement as between the Public Staff and the Company.
5 And Mr. DeStefano and Mr. Mendenhall, but particularly
6 Mr. DeStefano because it's his first time up today, is
7 available to answer a number of the questions that the
8 Commission had earlier for the Public Staff accounting
9 panel with respect to legislation, WSIC/SSIC inclusion,
10 project projected cost, AMR deployment, et cetera, so he
11 would be available to speak to that in some respects in
12 ways that Mr. Mendenhall was not.

13 So with that, the witnesses are available for
14 cross.

15 COMMISSIONER BROWN-BLAND: Well, can we hear
16 the summary?

17 MS. SANFORD: I seem to be having a hard time.
18 I'm trying to go too fast, so yes.

19 Q If you would give the summary of the Joint
20 Stipulation, please.

21 A (DeStefano) A summary of the Partial Joint
22 Settlement Agreement. I would like to summarize the
23 Partial Joint Settlement Agreement reached by the Company
24 and the Public Staff in this proceeding.

1 The Company and the Public Staff have engaged
2 in extensive settlement negotiations in this case, and
3 these two parties have reached a partial joint settlement
4 of all but two issues. Both parties made concessions
5 from their respective litigation positions in arriving at
6 the partial joint settlement. The following summarizes
7 the issues agreed upon through the testimony process and
8 through the partial joint settlement, and identifies the
9 two issues which have not been settled. Of course,
10 neither party waives any right to assert any position in
11 any future rate proceeding or docket before the
12 Commission or in any court, as the adjustment agreed --
13 adjustments agreed to are strictly for purposes of
14 compromise and are intended to show a rational basis for
15 reaching the agreed-upon revenue requirement adjustments
16 without either party conceding any specific adjustment.
17 Further, the Company and the Public Staff agree that the
18 settlement on these issues will not be used as a
19 rationale for future arguments on contested issues
20 brought before the Commission. The issues agreed upon by
21 the Company and Public Staff are:

22 The test period for this rate case is the
23 twelve months ending March 31st, 2019, adjusted for
24 certain changes in plant, revenue, and costs that were

1 not known at the time the case was filed, but are based
2 upon circumstances occurring or becoming known throughout
3 the close of the evidentiary hearing.

4 The proposed adjustments are identified as
5 Settled Items on the Settlement Exhibit I. These
6 include: an agreement on the capital structure of 49.1
7 percent equity and 50.9 percent debt; a 5.36 percent cost
8 of debt; adjustments to plant held for future use,
9 customer deposits, purchased power expenses, maintenance
10 testing costs, chemical expense, salary and wages and
11 pension and benefit expenses, meter reading costs,
12 depreciation expense, outside service costs, rent
13 expense, insurance expense, and many others, as shown on
14 Settlement Exhibit I.

15 A water loss adjustment for purchased water
16 expense based on a 20 percent water loss threshold for
17 Whispering Pines, Zemoso Acres, Woodrun, High Vista, and
18 Carolina Forest subdivisions.

19 The withdrawal of the Company -- by the Company
20 of its request to implement its proposed storm reserve
21 fund and utilize the Public Staff's position on storm
22 recovery costs.

23 The Public Staff's proposed calculations of
24 accumulated deferred income taxes, or ADIT, regarding

1 unamortized rate case expense. The Company and the
2 Public Staff agree to revise ADIT for any updates made to
3 rate case expense deferrals.

4 Deferred accounting treatment for post-in-
5 service depreciation expense and carrying costs related
6 to the Company's capital investments in the wastewater
7 treatment plants placed in service at Nags Head and
8 Connestee Falls during the pendency of this proceeding is
9 reasonable and appropriate.

10 A methodology for calculating regulatory
11 commission expense, also known as rate case expense, and
12 will update the number in Settlement Exhibit I, line 51,
13 for actual and estimated costs once supported --
14 supporting documentation is provided by the Company. The
15 Company and the Public Staff agree to amortize rate case
16 expenses for a five-year period.

17 Tariff rate design in this case should be based
18 on a 50/50 ratio of fixed/volumetric revenues for the
19 Uniform Water and Treasure Cove/Bradfield Farms/Fairfield
20 Harbour residential customers and an 80/20 ratio of
21 fixed/volumetric -- fixed and volumetric revenues for the
22 Uniform Sewer residential customers.

23 The Company and the Public Staff have not
24 reached a compromise or a settlement on the following two

1 issues: The appropriate return on equity for the
2 Company; and the appropriateness of deferred accounting
3 treatment for the AMR meter installation projects in the
4 Fairfield Mountain and Connestee Falls systems.

5 The approximate revenue requirement impact of
6 the agreed-upon items reduced the Company's requested
7 revenue requirement in this case by 1.13 million,
8 \$1,130,115 specifically. The actual amounts of the
9 agreed-upon adjustments may differ due to the effects of
10 the ultimate Commission determination on return on
11 equity, as well as updated information to be provided by
12 the Company. This completes my summary.

13 MS. SANFORD: And now the witnesses are
14 available for cross.

15 COMMISSIONER BROWN-BLAND: All right. Is there
16 cross for this panel?

17 MR. ALLEN: No questions.

18 CROSS EXAMINATION BY MS. HOLT:

19 Q Good afternoon.

20 A (DeStefano) Good afternoon.

21 Q Has the Company evaluated the age of its meter
22 inventory?

23 A I believe that's more of a question for Mr.
24 Mendenhall.

1 A (Mendenhall) The main evaluation we've done is
2 based on the age of the systems, is the way they were
3 brought online.

4 Q Okay. And have you -- do you have a systematic
5 way of maybe sampling service meters for accuracy and
6 testing?

7 A We do periodic testing. We actually, in, I
8 guess, early 2019, late 2018, bought what is referred to
9 as a MARS meter that allows operators to do in-field
10 testing of meters that are in question.

11 Q Did you say MARS?

12 A MARS.

13 Q M-A-R-S?

14 A Yeah. I can't remember if it's an "S" or a
15 "Z."

16 Q Okay. When was the Company's AMR program
17 developed?

18 A The installation of AMR meters predates myself
19 coming to the Company in March 2017. I think it goes
20 back to maybe '14 or '15. I can't remember for sure.

21 Q Are AMR meters required for compliance with any
22 state or federal regulation or law?

23 A Not that I'm aware of.

24 Q Mr. DeStefano, on page 9 of -- well, actually,

1 the Company's Reply which has been incorporated by
2 reference in your rebuttal testimony, the Company states
3 "The ultimate impact of this deferred accounting on a
4 typical residential customer, assuming a five-year
5 amortization period, would be a \$0.03 per month for water
6 customers and \$0.53 per month for sewer customers." Your
7 calculation of the impact on water customer rates is
8 based on approval of deferral accounting of the AMR
9 meters; is that correct?

10 A (DeStefano) That's right. It's just isolating
11 for that impact in this case.

12 Q Okay. And the impact on sewer customer rates
13 is based on the installation of the two new wastewater
14 treatment plants, correct?

15 A Correct.

16 Q Now, the Company has four separate rate
17 divisions, does it not?

18 A That's correct.

19 Q And as we heard earlier from Public Staff
20 testimony, rate base revenues, things like expenses, net
21 operating income, rate of return, rates, et cetera, are
22 calculated separately for each rate division?

23 A That's correct.

24 Q In fact, if the Company determined that it was

1 over-earning in one of the rate divisions, but under-
2 earning in another rate division, it could file a rate
3 case just to -- just as to the under-earning division;
4 isn't that correct?

5 A I guess conceptually, yes.

6 MS. HOLT: At this time I'd like to pass out
7 what's been premarked as Public Staff Cross Examination
8 Exhibit -- Public Staff DeStefano Cross Exam Exhibit 1.

9 Q So this is the Public Staff's --

10 COMMISSIONER BROWN-BLAND: Everybody is anxious
11 today. All right. What's being handed out will be
12 identified as Public Staff DeStefano Cross Examination
13 Exhibit 1.

14 (Whereupon, Public Staff DeStefano
15 Cross Examination Exhibit 1 was
16 marked for identification.)

17 Q Now, this is the Public Staff Data Request 81
18 on your rebuttal testimony and the Company's responses,
19 is it not?

20 A That's correct.

21 Q Now, if we turn to Data Request Number 5 --
22 sorry, these pages aren't numbered -- which continues on
23 to the last page --

24 A Uh-huh.

1 Q -- could you read question 5 into the record,
2 please?

3 A On page 6 of footnote 1, the Company states "in
4 Reply Comments that 'the Public Staff argues, without
5 evidence...' Please provide the Company's current meter
6 replacement plan or a detailed narrative description of
7 the Company's current meter replacement program. In
8 addition, please provide the previous version of such a
9 plan or program that existed prior to the current
10 version."

11 Q And could you also read the Company's response?

12 A Yes. "Response: See the response to #2 above
13 regarding discussions with Public Staff on prioritizing
14 transitioning the Company's mountain systems to AMR, and
15 the response to #4 above identifying upcoming mountain
16 system AMR replacement projects. In addition, the
17 Company follows AWWA guidelines for meter replacement
18 based on testing results and replaces meters based on
19 leak investigations."

20 Q Now, correct me if I'm wrong, but in your
21 response to -- that you reference in question 2 or 4, I
22 don't recall seeing where you state that you have a meter
23 replacement program in place, with the exception of the
24 AMR meter replacement project.

1 A Right. I think that the response there is
2 referencing that we are prioritizing the AMR mountain
3 systems as far as meter replacements go currently, so
4 that's our primary focus, and to the extent question 2
5 references discussions with Staff over the past several
6 years regarding its focus and need for transitioning to
7 AMR meters in those systems, so it kind of combined those
8 two as far as the Company's prioritization for meter
9 replacements.

10 Q Okay. But with the exception of the AMR meter
11 replacement projects, the Company does not have a meter
12 replacement project, per se, for non-AMR meters?

13 A (Mendenhall) As part of our non-revenue water
14 strategy within the Company, we have an individual that
15 sits in our Garner office that reviews vacant accounts
16 and zero consumption accounts and issues FA's or Field
17 Activities, so I consider that to be part of a meter
18 replacement program as they are found by operational
19 staff in the field.

20 A (DeStefano) And that's -- and that's what's
21 referenced, I think, by the AWWA guidelines that the
22 Companies follow.

23 Q So that process is just to determine individual
24 meters that need replacement?

1 A (Mendenhall) It looks at a report that
2 generates those zero volumes, so --

3 Q Okay.

4 A -- it could be one, could be 20.

5 Q Okay. Does that study, if you will, pertain to
6 aged meters or just malfunctioning meters?

7 A If I'm not mistaken, I'd have to check back,
8 but as part of my staff member's operation she looks at
9 specific ages of some of our older systems, I'm pretty
10 confident. The employee in question has been with the
11 Company for a long time, Ms. Jill Strickler, and she does
12 a great job as far as the evaluation process.

13 Q And does she generate a report regarding what
14 she discovers?

15 A That's -- the field activities are generated
16 through our OMS system, our Lucity system, so it's
17 tracked through those.

18 Q Okay. Thank you. For the record, how many
19 meters did the Company install at Fairfield Mountain and
20 how much did that project cost?

21 A It was a combination of 2,500 meters. I'm
22 trying to remember. There was a breakout of like 1,400
23 in one and 1,100 in another.

24 Q Okay.

1 A (DeStefano) I believe it was 1,400 in Fairfield
2 and --

3 A (Mendenhall) Yeah.

4 A (DeStefano) -- 1,100 or so in Connestee.

5 A (Mendenhall) Connestee.

6 A (DeStefano) And I believe Mr. Henry spoke to
7 the costs that we're applying to those projects.

8 Q Okay. And in the Company's Reply Comments on
9 page 6, the Company states that "These are among the
10 first major implementations of AMR meters in the
11 Company's system, and much more meter replacement work
12 must be done in the coming years." And I think Mr.
13 Mendenhall touched on this in his testimony earlier
14 today. And I'd like to direct your attention to the
15 Company's response to Data Request Number 4 which
16 requested information on the Company's AMR meter
17 installation projects completed. Could you also read
18 your response, for the record?

19 A (DeStefano) The response to number 4 in Exhibit
20 1?

21 Q Yes. Not the specifics.

22 A Not all the numbers? So the Company said
23 "Please see below for AMR subdivision meter installation
24 projects completed, beyond the Fairfield Mountain and

1 Connestee Falls projects included in the current case.
2 Also noted are the docket numbers within which each of
3 the projects were reviewed by Public Staff for rate case
4 recovery," and then below that is "Please see" -- "AMR
5 subdivision meter replacement projects" -- anticipated
6 replacement projects.

7 Q Okay. Now, in looking at this data, and I've
8 tried to do the math, in the Sub 344 rate case pertaining
9 to AMR meter projects in 2015, that involved seven
10 systems which totals 1,157 meters, with a cost of over
11 \$1.2 million. Does that sound about right?

12 A You're saying for the Sub 344 --

13 Q Yes.

14 A -- filing? Can you repeat those numbers real
15 quick?

16 Q It amounted to 1,157 meters, for a total cost
17 of over 1.2 million.

18 A Okay. Subject to check, I'll accept that.

19 Q Okay. And did you also agree that with regard
20 to the Sub 356 docket -- and I might add that these
21 projects were included in the subs -- the rate case of
22 the Company in Sub 356 and 344 rate cases, but with
23 regard to the Sub 356 rate case there were three systems
24 where the meters were replaced with AMR meters, for a

1 total of 2,440 meters, with a cost of over \$1.8 million.

2 Does that sound about right?

3 A It looks about right.

4 Q And in looking down, pertaining to the projects
5 that the Company anticipates doing later on, looks like
6 you plan to complete eight projects, similar projects,
7 over the next four years, including nearly 4,000 AMR
8 meter replacements. Does that sound about right?

9 A That looks about right.

10 Q Okay. So in analyzing the meter replacements
11 that you've done prior to this case, the Company has
12 already completed 10 AMR meter replacement projects which
13 includes 3,597 meter replacements, at a total capital
14 cost of over \$3 million, and that's prior to the projects
15 which are the subject of this rate case which total
16 around 900,000. Is that a fair assessment?

17 A I believe those numbers are accurate.

18 Q What is the difference between the two AMR
19 projects for which the Company is seeking deferral
20 accounting treatment in this case and the two other
21 projects, prior years' projects, \$3 million projects?

22 A Well, I guess to the extent the Company is
23 requesting deferred accounting in this filing for the
24 meter projects in this filing, the projects currently or

1 that were done this year are part of a much larger
2 capital investment by the Company. I believe the capital
3 investments by the Company overall, in those prior years,
4 was probably about half of what the Company is investing
5 this year, more in the \$10 million per year range, when
6 we're running in about the \$20 million per year range.
7 So I guess in one sense its inclusion in the deferred
8 accounting is due to the additional -- consideration of
9 additional lag that the Company has going on with --
10 beyond just the nature of these AMR rollouts.

11 Beyond that, I mean, the two systems that were
12 installed this year, as we mentioned, are larger than
13 basically every system listed here, a significant
14 undertaking, a coordination effort to be done basically
15 in one summer. These systems, again, being in the
16 mountains, there's a narrow window needed for investment
17 or replacement or installation, so there's not a lot of
18 flexibility in that sense. So grouping these two systems
19 this year and trying to gain the efficiencies of doing
20 those this year I think increased kind of the
21 implications to the Company and the significance of the
22 projects to the Company.

23 Q As opposed to grouping the projects done in --
24 for which the Company recovered in rate base one point --

1 one million, eight hundred fifty-two thousand, eight
2 hundred and thirty-seven hundred dollars?

3 A I'm sorry. Which items are you referring to?

4 Q The Sub 356 projects.

5 A Right. You can see that those projects were
6 more spread out over multiple periods, so they were
7 getting done more kind of piecemeal. And I believe, if
8 I'm not mistaken, the Sub 344 projects also were kind of
9 done over a little bit more of a piecemeal nature, they
10 may have completed about the same time, but overall, the
11 installation process was more spread out as far as the
12 work actually being completed.

13 Q Okay. Despite the fact that in looking at the
14 Sub 344 cases they came into service about the same time?

15 A Yeah. In-service date may be about the same
16 time, but I believe --

17 Q The end of the month.

18 A -- the directive to install those meters was I
19 think at least a year in advance of that, and the Company
20 was kind of methodically moving through those systems and
21 working through those systems which are kind of spread
22 out throughout the mountain area, and they all kind of
23 completed around the same time.

24 Q Would you accept, subject to check -- and I

1 think Mr. Mendenhall alluded to this -- that companies,
2 water companies in particular, have been utilizing AMR
3 technology for several years?

4 A Some companies have.

5 Q Over 15 years?

6 A Some companies have, and municipalities, et
7 cetera, have been using AMR for some time.

8 Q And also North Carolina-regulated electric
9 utilities have been utilizing AMR technology for close to
10 15 years, and gas utilities have been utilizing AMR
11 technology for approximately 20 years? Will you accept
12 that, subject to check?

13 A Even accepting subject to check, I'm not sure,
14 to the extent that that technology was available at equal
15 times or cost effective at equal times for each of those
16 industries. There may be other considerations as far as
17 the timing of the rollout of those meters.

18 Q Let's look at the attachment to DeStefano
19 rebuttal, which is -- at the top right states Schedule 2,
20 Updated for Reply Comments.

21 A I don't think I have that in front of me. I
22 apologize. I just have the testimony itself.

23 (Document handed to Witness DeStefano.)

24 A I have it now. I have it now.

1 Q Okay. It's entitled -- I'd like to look at
2 line number 2, Net Plant Additions for Connestee Falls
3 wastewater treatment plant, and line 8, Net Plant
4 Additions for Nags Head totaling 6 million. These have
5 been included in this rate case, correct, these costs?

6 A For rate base, yes.

7 Q And the Total Deferred Carrying Costs on lines
8 6 and 12 for those wastewater treatment plants updated,
9 based on the Public Staff's calculations, which is
10 actually a higher number, correct?

11 A I believe there was some updating that was
12 going on after the filing of this document, yes.

13 Q These numbers were also included -- these costs
14 were also included in this case, correct, the deferred
15 carrying costs for the wastewater treatment plants?

16 A Yes. Mr. Henry's calculations were included
17 for deferred amortization over a five-year period.

18 Q And also moving down to the Carolina Water
19 Uniform Water, line 15, these Net Plant Additions,
20 there's a note here to the tune of \$409,000, have also
21 been included in this case for rate base?

22 A For rate base addition, yes.

23 Q Yes. And moving down to line 21, Net Plant
24 Additions for Connestee Falls AMR Meters, and I think

1 this number has been updated as well, has been included
2 in rate base in this case?

3 A Correct.

4 MS. HOLT: I'd like to now pass out an exhibit
5 which I'd like to have marked as Public Staff DeStefano
6 Cross Examination Exhibit 2.

7 COMMISSIONER BROWN-BLAND: All right. This
8 single-page exhibit will be identified as Public Staff
9 DeStefano Cross Examination Exhibit 2.

10 (Whereupon, Public Staff DeStefano
11 Cross Examination Exhibit 2 was
12 marked for identification.)

13 Q Mr. DeStefano, I know you haven't had a chance
14 to look at this, but it's based on the Public Staff's
15 calculation of various deferred carrying costs for the
16 meters and the wastewater treatment plants that Mr. Henry
17 discussed earlier today and the impacts which we
18 discussed with him. Do you have any reason to dispute
19 what you see here?

20 A I mean, I would want to see more detail than
21 this to really confirm the inputs, but I guess the focus
22 here, in my mind, I guess, and what the Commission has
23 stated before for deferred accounting proceedings is
24 really the ROE number, which would be line 9, as that's

1 been generally what's been referred to for Commission
2 consideration as far as financial impact. And the
3 importance of that number as opposed to the other dollar
4 figures is what was mentioned before as far as scope and
5 scale when comparing to the energy companies. I mean, we
6 can estimate, you know, what a Duke rate base might be
7 and the billions, et cetera, versus the Company. I think
8 things get lost when we talk about dollars and don't
9 really talk about their implications to the company we're
10 talking about. ROE does it -- ROE does the right job of
11 leveling that playing field and taking that noise of size
12 and scope and scale out of the picture and just talk
13 about what the Company is actually dealing with on its
14 ROE impact. So I would just -- I would just focus
15 attention on that number out of everything on this page.

16 Q Okay. But in looking at line 9, the Decrease
17 on ROE, do those numbers comport with what Mr. Henry
18 discussed earlier today with regard to combined water,
19 the 24 basis point difference, and with regard to the
20 wastewater treatment plants, the 434 basis point
21 difference?

22 A Yes. I believe he cited those numbers earlier.

23 Q Okay.

24 MS. HOLT: Thank you. I have no further

1 questions.

2 WITNESS DESTEFANO: Thank you.

3 COMMISSIONER BROWN-BLAND: Redirect?

4 MS. SANFORD: Yes. My questions are almost
5 exclusively for Mr. DeStefano.

6 REDIRECT EXAMINATION BY MS. SANFORD:

7 Q What we have before us in this case with
8 respect to deferral accounting are two additional
9 mountain systems, right?

10 A Correct.

11 Q We refer to them among ourselves and in
12 conversations with the Public Staff as mountain meters,
13 right?

14 A Right.

15 Q And we've had others over past years other
16 mountain meter system replacements that have been approved
17 but for which you did not request deferral accounting,
18 correct?

19 A Correct.

20 Q And when you set about deciding to replace the
21 meters in these two systems that are before us, you
22 evaluated them as a system; is that right? Is that the
23 right word?

24 A Yeah. The Company's been doing its meter

1 replacements on a subdivision-by-subdivision basis.

2 Q Subdivision.

3 A Yeah.

4 Q And so that's not a meter here and a meter
5 there; that's a whole subdivision of whatever size the
6 subdivision is?

7 A Correct. It's covering the entire subdivision.

8 Q And in this case the subdivisions, and I
9 believe this was said -- I don't trust my notes -- in
10 this case for Fairfield it was 1,400 meters?

11 A Roughly, yes.

12 Q Is that right? And for Connetsee it was 1,100
13 meters.

14 A Correct.

15 Q So these were pretty significant projects for
16 you, right?

17 A Right. They're two of our larger systems,
18 especially in the mountain area.

19 Q And you certainly evaluated them as -- well, I
20 should scratch certainly. You evaluated them as entire
21 systems?

22 A Correct.

23 Q And can you give us some idea of the magnitude
24 or scope of these replacement projects for you, for

1 Carolina Water? Were they big? Small?

2 A (Mendenhall) So the 2,500 that we did
3 represents now, I guess, what, 40 percent of total AMRs
4 and was about 8 percent of total meters in the state.

5 Q Okay. And as I believe was discussed in the
6 cross examination, you have plans to deploy additional
7 meters in additional subdivisions, right?

8 A (DeStefano) That's right.

9 Q Additional AMR meters in mountain subdivisions?
10 Is that -- that's what's currently?

11 A Currently, that's next on our priority list.

12 Q On your priority list. And so, again, same
13 question as before, you were evaluating these projects.
14 I mean, you have a basis for determining that this is --
15 that the meters need replacing and that this is the right
16 technology to do it, right?

17 A Correct. And I believe we've had those kind of
18 conversations, like you said, with the mountain system
19 meters with Staff over the past several years as far as
20 the right technology to suit kind of the situation and
21 the dynamics of those operating areas.

22 Q Right. And in these installations you're going
23 to AMR meters which is -- is this an analog to digital
24 move on your part?

1 A (Mendenhall) It's one way you think on it from
2 a conventional face read to having the ability to drive
3 by and capture the read without getting into the meter
4 box and getting out of the vehicle.

5 Q And in and of itself, is that a significant
6 change in your metering protocol?

7 A When you go from conventional to the AMR,
8 significant, yes.

9 Q Yeah. And you've justified them in the
10 mountain regions because, in part -- I'm not trying to
11 embrace the full scope of your justifications, but in the
12 mountain regions because of climate and geography, it's
13 one of the bases for your proceeding in this path to this
14 technology is because of the ability to read without
15 having to send people out in the cold and the snow,
16 right?

17 A There's inherent risk based on the climates,
18 correct.

19 Q Okay. Ms. Holt, I think, asked or at least
20 implied a question that has been discussed in the hearing
21 room today which has to -- which seemed to have to do
22 with why haven't you asked for deferred accounting
23 before, why now? And so I have a few questions in that
24 regard. And first of all, I will just ask you, why have

1 you not asked for deferred accounting before now?

2 A (DeStefano) Well, generally, but also
3 particularly for the AMR meters here, it's largely been
4 because the Company's overall capital budget hasn't been
5 as significant as it is now or expects to be going
6 forward. The Company is seeing a lot of end of life to a
7 lot of its assets based on a lot of its system aging out,
8 you know, kind of a perfect storm of aging of multiple
9 parts of the Company's system on the water side and the
10 sewer side, so capital investment has increased. So,
11 again, that increases, as was touched on before, the
12 capital investment in between rate filings, can affect
13 regulatory lag, affect earned returns and things like
14 that, so the Company is looking for ways to try to
15 mitigate those issues as much as we can.

16 Q Yes. And let's talk about that. This is the
17 -- so you got an Order in your last rate case in February
18 of 2018 -- 19; is that correct?

19 A Correct.

20 Q And you filed this case in June of this year.

21 A Correct.

22 Q You indicated your spend in North Carolina,
23 your investment in North Carolina, has gone up,
24 significant increase.

1 A In recent years, yes.

2 Q Recent years, yes. And you are required, both
3 for obligation to regulatory requirements, environmental
4 and economic, as well as for just the proper
5 administration of your system, to invest in the plant in
6 North Carolina; is that right?

7 A Correct.

8 Q And how old are these meters that you're
9 replacing in the mountains?

10 A (Mendenhall) Connestee, in and of itself, is
11 probably early '70s that it was built, so they'll have an
12 age that mimics that over time.

13 Q And the wastewater treatment plants, the two in
14 this --

15 A Connestee was built early -- well, early '70s.
16 I want to say Village of Nags Head was probably mid to
17 late '70s.

18 Q And so if you're going to invest, particularly
19 at increasing levels, then you're required to -- for
20 financial stability you're required to recover your
21 investment and to earn a return; is that correct?

22 A (DeStefano) Correct.

23 Q And do you understand that the regulatory
24 bargain in North Carolina, I will call it, gives you an

1 opportunity to earn an authorized return, but not a
2 guarantee?

3 A Correct.

4 Q Would you agree that you are required to
5 exercise good -- I'll just say good management in order
6 to have that opportunity or be deemed to have had that
7 opportunity?

8 A Correct. The Company needs to invest
9 reasonably and prudently.

10 Q Has there been any indications -- have there
11 been any allegations, indications, conversation of any
12 significance in this rate case or in the last rate case
13 about imprudence or poor management on the part of this
14 Company?

15 A Not that I'm aware.

16 Q Yet you have been unable -- do you know how
17 many cases you've filed in the last four years, five
18 years?

19 A I think -- four years ago, I think, was the
20 first consolidated case for Carolina Water, and so it's
21 been three cases in the last four years, including this
22 one.

23 Q Three and four years. Rate cases are expensive
24 propositions for the Company; is that correct?

1 A Correct.

2 Q And they're costly in terms of regulatory
3 resources and customer disruption. They're costly in
4 many ways; would you agree?

5 A Correct.

6 Q Does the Company wish to try to increase the
7 interval between rate cases? Is that a thing you would
8 wish to do as a matter of your operation?

9 A Correct, knowing that the Company has to invest
10 on a going basis, yes.

11 Q And yet here you are --

12 A Yes.

13 Q -- within a very short period of time from when
14 you received the last relief. And so is it with respect
15 -- going back to why now, the why now question about
16 asking for deferred accounting, as has been discussed
17 widely in the room over the last day or so, deferred
18 accounting is a mechanism, it is a tool, regulatory tool
19 for allowing you to get more timely, more complete
20 recovery. Would you agree with that or do you have a
21 better definition? And I bet you do.

22 A No. So, yes, as far as regulatory lag goes,
23 it's really -- I think Mr. Henry's description of it or
24 acknowledgement of it earlier was, I think, accurate,

1 that it's really just the lag between capital investment
2 or other cost increases, you know, say, net of any
3 efficiencies gained, that would -- that would result in
4 addit--- result in carrying costs or other types of cost
5 differentials between what's authorized at that point, at
6 any given point, to what's being incurred at that point.

7 Q And whether we are talking about any of the
8 mechanisms that we've talked about over the last couple
9 of days that go under different categories, I suppose,
10 but whether it's CUTs or IMRs or WSICs or SSICs or
11 deferred accounting, is Carolina Water looking at all of
12 these regulatory tools now with a great deal of emphasis?

13 A Right. I mean, especially with the increased
14 emphasis on capital investment or need for capital
15 investments in the Company's systems in the recent years,
16 last two years, especially, and then going forward, you
17 know, the Company has a WSIC/SSIC mechanism available to
18 it, indeed. The Company has, again, deferred accounting.
19 This is the Company's first attempt at recovery through a
20 deferred accounting for regulatory lag and carrying
21 costs. You know, the Company has a pass-through
22 mechanism for purchased water cost, but that's kind of a
23 narrow group of costs for purchased water systems that
24 are 100 percent purchased water, as opposed to a mix of

1 well and purchased water, and that's dependent on cost
2 changes which may or may not occur from vendors, so
3 effectively the rest of the items are open for regulatory
4 lag.

5 Q And so you're looking to fully explore your
6 access to all of these mechanisms and to utilize them to
7 the maximum extent possible to try to have a better
8 ability to earn your authorized return in North Carolina;
9 is that correct?

10 A Yes. To mitigate the regulator lag, have the
11 best opportunity to achieve the authorized return and,
12 yes, and to make sure of the mechanisms available.

13 Q So the answer to the why now is that try to
14 find a way to get more recovery in an individual case and
15 hopefully to stay out a little longer; is that correct?

16 A Right, yeah. All that leads to hopefully
17 extending the period between rate cases.

18 Q You discussed the Company's -- you and Ms. Holt
19 discussed the Company's request for deferred accounting
20 for the AMR project in this case in the context of the
21 Company's overall capital expenditures. How would you
22 characterize the Company's near and -- near-term, ongoing
23 term capital requirements in North Carolina?

24 A I think at this point, and our capital budgets

1 are still under review internally, but generally, you
2 know, generally speaking, we expect our capital
3 investment needs to be roughly in the ballpark of what we
4 spent this year. We're planning to spend about 22
5 million in capital investment this year. Again, the vast
6 majority of that is captured here in the rate case and
7 we've already talked about it, but going forward we still
8 have a lot of lift stations that need to be upgraded and
9 rehabbed, again, the meter replacements are still going
10 to be needed on a going basis, treatment -- we have a lot
11 of sewer plants that are nearing the end of their life,
12 like Connestee and Nags Head, so we've got a lot in front
13 of us still in future years.

14 Q And staying on the subject of the AMR deferral
15 request here, by filing simultaneously with the rate case
16 you have assured that there's a finite period of length
17 of the request of the -- I mean, of the impact, rather,
18 of deferral accounting; isn't that correct? You have
19 minimized it by the nature of your filing?

20 A Right. And I think that was referenced by Mr.
21 Henry and Mr. Junis before as far as the three prongs
22 that they termed. One of the prongs is well taken care
23 of as far as a finite period that we're looking at, and
24 then the exhibit that was passed out a moment ago, it

1 does cite the dollar amounts there, and those dollar
2 amounts are mitigated to the maximum -- really, the
3 maximum extent possible by the Company by filing the
4 petitions concurrently.

5 Q Let's see. I have a couple more questions.
6 One sends us to Cross Examination -- Public Staff
7 DeStefano Cross Examination Exhibit 2, lines 7 through 9,
8 dealing with the ROE impact.

9 A Uh-huh.

10 Q Does this exhibit show authorized ROE or actual
11 ROE?

12 A It shows an authorized of 9.75 on line 7, and
13 then I believe row 8 is effectively attempting to show
14 basically an all else equal except for these investments
15 resulting actual ROE.

16 Q But what was your actual ROE during the test
17 period?

18 A It was the -- it was the 1.63 percent
19 previously cited.

20 Q Okay. Last point, and you dealt with this in
21 response to Ms. Holt's questions, I think, but should we
22 understand that your view about whether to -- when
23 evaluating compliance with the criteria of deferral
24 accounting, your view is that the focus should be on ROE

1 and not on costs or other companies or size of projects,
2 I mean, is that correct?

3 A Right. Yeah. ROE is kind of that level playing
4 field for consideration. I mean, every company has an
5 authorized ROE. They're all roughly in the same area,
6 you know, generally speaking. And, you know, the size of
7 a company's rate base or the size of a company's capital
8 investments, you know, relative to that rate base is
9 going to differ significantly, so using a percent base
10 number really kind of normalizes all of that noise from
11 the size differences. And the Commission has been
12 consistent, I think, in their previous Orders as far as
13 focusing on financial impact using ROE numbers.

14 Q Last question. And I apologize, I'm skipping
15 around a little bit. I'm trying to make sure I've
16 covered all my notes. With respect again to the why now
17 and what you're -- what you're doing, per our
18 conversation about exploring all modes of recovery you
19 were looking both at statutory interpretations and you
20 were looking at an evaluation of whether the statutes
21 should be amended; is that correct?

22 A Yes. That's something the Company has
23 considered or looked into --

24 Q Right.

1 A -- as far as the current -- the current rules
2 that are in place.

3 Q So you're just trying to explore all avenues of
4 an increased fair ability to earn your authorized
5 returns, right?

6 A Yes. That's one consideration. I mean, the
7 rules are in place as they are and there's -- again,
8 there's limitations and interpretations baked around
9 those, so to the extent those can be updated, modified,
10 or interpretations can be adjusted to accommodate, you
11 know, certain circumstances or things like that, the
12 Company would look for those opportunities.

13 Q Okay. Thank you.

14 MS. SANFORD: I have no more questions.

15 WITNESS DESTEFANO: Thanks.

16 COMMISSIONER BROWN-BLAND: Questions from the
17 Commission? Chair Mitchell.

18 EXAMINATION BY CHAIR MITCHELL:

19 Q Question for Mr. Mendenhall. So I understand
20 the Company has installed approximately 3,500 AMR meters
21 to date, setting aside the meters that were installed in
22 the -- for the incident proceeding?

23 A (Mendenhall) So it was 2,500 in this
24 proceeding.

1 Q Right, but prior to these meters, 35--- is it
2 about 3,500?

3 A Yes, ma'am.

4 Q Is my math right? Okay.

5 A That is correct, yes.

6 Q Okay. Give or take. How are those meters
7 reading compared to their analog predecessors? Are they
8 reading high? Are they reading low? Are they reading at
9 the same levels? Have you all researched that issue or
10 looked at that data?

11 A No. I don't know that -- I don't consider them
12 to be reading high. I think the average meter comes out
13 of the box and it's set at 99.3 to 99.7 percent accuracy
14 when it first goes in the ground to meet minimum
15 criteria. So it's just like the conventional meter
16 technically that it replaced. Over a given part of time
17 those positive displacement meters start to wear down a
18 little bit and they get slower, but right off the bat
19 it's reading just shy of 100 percent.

20 Q Okay. I thought I understood Mr. Junis to
21 testify earlier today that new meters may read -- may
22 provide a more accurate reading than the aged meters, and
23 I'm just wondering if you all have actually seen that in
24 the readings that you're getting off these AMR meters.

1 A I'd have to -- we'd have to go back and look at
2 the, I guess, pre-installation of these, what consumption
3 levels were compared before and after.

4 A (DeStefano) Yeah. So --

5 Q Okay. And the Company has not done that?

6 A (DeStefano) Well, sorry.

7 A (Mendenhall) Go ahead.

8 A (DeStefano) I'll jump in. So for the projects
9 that we had listed in that one discovery response from
10 2015, '16, '17, those prior installations, I believe, and
11 Mr. Mendenhall can correct me if I'm wrong, but I believe
12 those were installations. They weren't replacements of
13 existing meters because those were unmetered customers
14 previously.

15 Q Okay.

16 A So there's not really a comparison point --

17 Q Got it.

18 A -- for those specific systems.

19 Q Okay.

20 A For the existing systems, again, I think our
21 activity, we have a lot of seasonal activity in Fairfield
22 and Connestee and a lot of mountain systems, so I think
23 because they're relatively new installations I don't
24 think we've necessarily seen kind of a full scope of

1 their flow activity.

2 Q Okay. That's --

3 A It's something we can continue to monitor,
4 though.

5 Q Okay.

6 A (Mendenhall) We're going to have to get a full
7 cycle out of them before --

8 A (DeStefano) Right.

9 A (Mendenhall) -- we can see exactly what the
10 pattern has done.

11 Q And what do you mean by "full cycle"?

12 A A visitation cycle, I would say, seasonal
13 cycle, summer to winter.

14 Q Okay. Understood.

15 CHAIR MITCHELL: Okay. I have nothing further.

16 COMMISSIONER BROWN-BLAND: Commissioner

17 Clodfelter? Commissioner Hughes.

18 EXAMINATION BY COMMISSIONER HUGHES:

19 Q Just while we're talking about that, did I hear
20 earlier that you did assume a \$20,000 deduction in
21 contract reading cost for the installation of meters?
22 Did that stick in --

23 A (DeStefano) Yeah. The Company, when we filed
24 the deferred accounting petition and included in the rate

1 case at the same time, we removed, for pro forma
2 purposes, the meter reading cost -- contract meter
3 reading cost for those systems which combined was about
4 21,000, I think, a year combined annually.

5 Q Okay. Then following up on Commissioner
6 Mitchell, but you did not assume any increased water
7 consumption?

8 A No. We didn't have -- I don't think we had, I
9 don't think, sufficient data to really identify that at
10 this point. And I think there may be other costs outside
11 of the meter reader cost, like we had some -- a little
12 bit of software and some handhelds and other things that
13 may have well offset that that we didn't include in the
14 case that were relatively small.

15 Q That's fine. There's some aggressive meter
16 salespeople that will promise lots and lots of --

17 A Yeah. I don't know if we've run into that yet.

18 Q -- savings, so I just was curious what we were
19 looking at.

20 A Okay.

21 Q The last thing, just, again, a clarification,
22 and I don't know which number related to which total, but
23 we heard several times that the -- both, I guess, the
24 total and the ROE on common equity for the test year is

1 very low now, and you're trying to correct that, and I
2 think we heard 1.67 percent or -- and then I think I
3 heard Mr. Junis say that that calculation was based on
4 one month of the higher rates from the last time and 11
5 months of the rates that you had previously. Does that
6 make sense? I just wanted to --

7 A Yes.

8 Q -- understand if that was the case or it is --
9 it does seem to be a difference.

10 A Yeah. So there's -- yeah. So Mr. Junis is
11 right that there's a little bit of an imbalance to that
12 where the test year is March ended and the rates were
13 effective February 21st, so the vast majority of the
14 period was the 2017 rate filings rates being effective.
15 However, the rate increase that the Company had in the
16 last rate case was about 1.1. million, which certainly
17 wouldn't make up the difference from 1.63 to 9.75 which
18 was the authorized level of return. And then the Company
19 has subsequently invested \$22 million over the course of
20 the ensuing period since the cutoff period of the last
21 rate case. So all of that would combine to -- again, I
22 think it was pointed out that the settled position so far
23 account for about 4.5 million in revenue increase being
24 needed. So even if the -- if you would make those kind

1 of normalization adjustments for current rates and things
2 like that, it still would, I believe, fall well short of
3 9.75.

4 Q Okay. Yeah, but just somewhere in between
5 1.6 --

6 A Somewhere in between, yeah.

7 Q -- and -- okay.

8 COMMISSIONER HUGHES: Thank you.

9 WITNESS DESTEFANO: Sure.

10 COMMISSIONER BROWN-BLAND: Commissioner
11 Clodfelter.

12 EXAMINATION BY COMMISSIONER CLODFELTER:

13 Q A couple questions about meters. Mr.
14 DeStefano, did -- in response to Chair Mitchell's
15 questions, I want to be sure I understood your answer.
16 Is it correct that all of the prior installations of
17 AMR meters, for example, the ones shown on your Cross
18 Examination Exhibit 1 Public Staff in response to
19 question 4, those were all conversion from unmetered
20 systems to metered systems? Were all of those
21 conversions?

22 A (DeStefano) I believe they -- I'd have to go
23 back and look at -- I think it was Sub 336 that required
24 the Company to meter the unmetered systems, and I believe

1 that docket listed those systems. So I believe the vast
2 majority of these systems were unmetered. I think
3 Linville was a relatively recent acquisition, so that may
4 have been outside the scope of that.

5 Q That's the only one that wasn't -- that's
6 actually later, it's 2017. The others are 2015 and
7 one --

8 A Right.

9 Q -- bleeding over into 2016.

10 A Yeah. I'm not sure about Elk River, but all
11 the others I believe were unmetered systems.

12 Q Well, if that's the case, of course, then
13 obviously you wouldn't have brought those in for WSIC
14 treatment because they wouldn't have been replacements.

15 A For WSIC, yeah.

16 Q Yeah.

17 A And WSIC/SSIC would have been accessible at
18 that time, I believe.

19 Q Right, right.

20 A Correct.

21 Q Thank you. Mr. Mendenhall, in my short time
22 here, already I've heard all that I -- more than I ever
23 expected to know about meters of all kinds, but one of
24 the things I heard about some of the AMR meters that are

1 in use is that they not only allow you to read the meter
2 remotely, that's not really what I'm interested in, but
3 they also allow you to collect or to preserve additional
4 data. Do the meters that you're installing allow you to
5 collect new kinds of data or preserve or capture data
6 over longer periods of time that you're not now
7 collecting?

8 A (Mendenhall) They store a longer period -- they
9 have the electronic means to store usage information.

10 Q Right.

11 A The difference, obviously, between AMR and a
12 few other technologies is that you're accessing it at one
13 time or when you send a signal to wake that meter up --

14 Q Right.

15 A -- at that given snapshot in time, so we can
16 get those instantaneous reads without going to pick up
17 the meter box lid as we've had to do in the past.

18 Q You can get the instantaneous readings, but can
19 you also get the stored readings over an interval period?

20 A It should populate -- I'm pretty confident it
21 populates that to the device, and then when we upload
22 that into the following software, it populates into our
23 billing software, that is ultimately stored in there as
24 well.

1 Q Right. Well, that's sort of what I've heard
2 about the AMR technologies in other contexts. And so
3 really what I want to do is ask you an open-ended
4 question, is have you got any ideas about what you're
5 going to do with that additional data now that you've got
6 that sort of much more granular day-by-day, for example,
7 or period-by-period usage data over an extended period of
8 time, you can capture that, preserve it, and it gives you
9 the ability to analyze it and ask various questions of
10 it? Have you got any plans?

11 A Yeah. Ultimately, what I'd like to see with
12 it, I've got -- to give you not a completely open-ended
13 answer, but I now have the opportunity as we get these
14 meters in place, especially with the newer technology, to
15 -- for me to kind of branch down, be more localized with
16 my efforts of looking at lost water. That's a lot of
17 what I'm seeing. So I can localize it from street to
18 street where I don't have "master meters" on to monitor
19 what's downstream and I have to subtract that out from
20 usage. So that's where I'm kind of hoping I can see some
21 management from nonrevenue and lost water strategies with
22 it.

23 Q Do you have any plans to make that data --
24 additional data available to your customers so that they

1 can spot usage patterns that they may see as unusual?

2 For example, all of a sudden I see that I've got three or
3 four days here that are really aberrations of my usage
4 pattern and I don't understand why that was for those
5 three days?

6 A No. I mean, we certainly wouldn't withhold
7 information from the customers.

8 Q I know you wouldn't, but do you have any plans
9 to actually push that information out in order to help
10 customers manage water usage?

11 A Would love to, yes. I don't -- I mean, I think
12 it's something the Company should provide to them. It's
13 a matter of having the -- being able to review it in a
14 timely fashion and give it to them so that it makes -- it
15 has an impact when you're providing it to them.

16 Q Right. I mean, again, these are open-ended
17 questions. There will be no resolution today --

18 A I understand.

19 Q -- on this case, but I think one of the
20 Commission's interests in new meter technologies is what
21 we can do with data analytics off of the data we capture
22 there and how we can use that to drive certain other
23 programs --

24 A Understand.

1 Q -- in utilization.

2 A Understand. Appreciate that.

3 Q Okay. So let me jump back to Mr. DeStefano.
4 You heard me ask the question of Mr. Henry about the
5 information on the old Connestee Falls and Nags Head
6 wastewater treatment plants, the ones you replaced. And,
7 again, what I'm interested in learning about here is
8 really what we're looking at here and maybe going forward
9 as we get to end-of-life situations with some of your
10 major capital facilities such as the wastewater treatment
11 plants.

12 And so what I was really interested in, I took
13 Witness Henry's Exhibit I, Schedule 1 Revised, and I did
14 that only because it does break Connestee Falls and Nags
15 Head out separately from the aggregate plant and service
16 category. And so that's really what I'm focused on, is
17 the breakout. That exhibit shows a lot of things I'm not
18 interested in for the purposes of this question. I'm
19 interested in them, but not for purposes of this
20 question. For example, it shows the deferral issue, and
21 I'm not really focused right now on the issue of the
22 deferral, but really would like to just sort of do a
23 comparison or a look back at if we had generated that
24 information in Sub 360 for the old plants, what would it

1 have shown from -- for example, from lines 6 through 12,
2 starting with original cost rate base and calculating
3 down to annual revenue requirement. If you'd shown that
4 a year ago as a breakout from plant in service just for
5 the old Connetsee Falls wastewater treatment plant and
6 the Nags Head old -- Nags Head wastewater treatment
7 plant? Am I being clear on what I'm looking for?

8 A (DeStefano) So really just the revenue
9 requirement calculation --

10 Q Yeah.

11 A -- for those specific --

12 Q Yeah.

13 A -- assets?

14 Q Yeah. I'm not interested in the, you know,
15 depreciated book value, starting with that. I'm looking
16 at what if I started with the original cost rate base on
17 those old plants and then ran down to look at, using the
18 Sub 360 inputs about rate of return and regulatory fee
19 and all that sort of stuff, what would the revenue
20 requirement and the annual depreciation and the annual
21 depreciation expense have been for those old plants?

22 A Okay.

23 Q And, again, just sort of bottom line it. What
24 I'm really trying to get a handle on is what is the

1 increase in annual revenue requirement for these new
2 plants over what the annual revenue requirement would
3 have been for the old plants?

4 A Okay. And just do this side by side of his --

5 Q Yeah.

6 A -- calculation with the old one?

7 Q Exactly. Because, again, to circle back, I'm
8 really trying to sort of get a sense of where we're going
9 here as we go forward from this point, where the Company
10 is going with how revenues are going to change -- revenue
11 needs are going to change as you reach end-of-life
12 replacements.

13 A Right. Okay.

14 Q Yeah. Got it.

15 A Gotcha. Thank you.

16 COMMISSIONER CLODFELTER: That would be a late-
17 filed exhibit?

18 MS. SANFORD: Yes.

19 WITNESS DESTEFANO: Sure.

20 COMMISSIONER CLODFELTER: And if any of that
21 rambling around was unclear, Ms. Sanford, we can clean it
22 up with a subsequent exchange.

23 MS. SANFORD: Thank you.

24 COMMISSIONER CLODFELTER: Okay. That's all.

1 WITNESS DESTEFANO: Thank you.

2 EXAMINATION BY COMMISSIONER BROWN-BLAND:

3 Q So Mr. Mendenhall, I have just a clarification
4 off a question you just answered with Commissioner
5 Clodfelter on the data, the data capabilities of the AMR
6 meters. I may have understood it one way and maybe you
7 meant it differently, so you mentioned that I guess you
8 ping or you send some signal to the meter, wakes it up,
9 and it captures. Is that the only capturing or is there
10 like a daily, like it captures 40 days' worth of data or
11 it only captures the data once you wake it up and it's
12 just that snapshot and then it keeps it --

13 A (Mendenhall) It's continuing to capture the
14 data. It's a matter of when you ask for it to transmit.
15 And it kind of rolls on itself, but it's continually
16 capturing data.

17 Q So you can see like several days' worth or
18 months' worth of usage data?

19 A I don't know about several months' worth, but
20 several days' worth. I'm pretty confident that it
21 exceeds 30 days of storage usage in it.

22 Q Okay. All right. Thank you.

23 A Sorry.

24 Q Mr. DeStefano, your Rebuttal Attachment 1,

1 Schedule 2, shows the proposed deferred cost related to
2 AMR as \$51,960. Public Staff witnesses testified to
3 \$64,736. Do you agree with their number or do you
4 understand a discrepancy?

5 A (DeStefano) I think from the exhibit given me
6 today it's got some limited information, so I'd want to
7 double check it, but, again, subject to check, I'm okay
8 with their calculations. I think there may have been
9 some massaging or correction of, say, in-service dates
10 and things like that after we had supplemental
11 conversations.

12 Q And also in your rebuttal testimony on your
13 Attachment 1 you have included a statement that "State
14 regulatory commissions have authorized deferred
15 accounting in connection with meter replacement
16 projects," and you give several examples, of which North
17 Carolina is not one. Are you aware of any dockets in
18 North Carolina in which the Commission has allowed
19 deferred accounting in connection with AMR or AMI meter
20 replacement projects?

21 A I believe there was one docket, although I
22 don't recall it, that it wasn't quite a meter
23 replacement, but it was more, I think, of deferring an
24 amortization of, say, the net book value of the prior

1 meters when AMI was replacing AMR or something to that
2 effect. So it's maybe a little bit of a different
3 context, but I think it still surrounded approval of a
4 deferral related to AMR meters. I don't recall the
5 docket off the top of my head.

6 Q Was it an electric docket?

7 A Yeah. I believe it was.

8 Q And was it fairly recent? Do you know? Can
9 you recall?

10 A I don't recall -- I don't recall which one it
11 was. Sorry.

12 Q And regarding the examples from other state
13 commissions that you cite, can you shed light on the
14 circumstances of those dockets and compare them to the
15 situation of your request in this docket, if you know?

16 A It's been a little while since I've looked at
17 them, unfortunately, so I'd probably have to go back and
18 look and summarize those, but we can provide summaries of
19 those, if that's helpful.

20 Q Well, I was interested if you had it -- you
21 know, if you knew that there were similarities, I'm sure.

22 A I believe there was a similar --

23 Q I'm sure our Staff is going to cull through and
24 make -- and figure it out --

1 A Sure.

2 Q -- so I was interested in your take on it --

3 A Right.

4 Q -- in case it's different.

5 A And I don't believe Staff has commented since
6 on that particular piece, so I'm not sure what their
7 response would be, if any. But, again, we can provide
8 summaries. I think they were generally similar context,
9 but, again, maybe a different mechanism in place for
10 deferred accounting.

11 Q And this next question concerns Witness
12 Casselberry's prefiled testimony, where she stated "The
13 Public Staff recommends that in the next general rate
14 case, W-1, Item 26, be reconciled with the Company's bill
15 data to ensure that the filing does not include double
16 bills, that the Company accounts for multi-unit
17 customers, and that other bills produced, such as final
18 bills, late notices, re-bills, or other miscellaneous
19 bills are not included in the W-1, Item 26 filing."

20 Do you, the Company, agree with that
21 recommendation and will be able to perform the requested
22 reconciliation?

23 A Yes. The Company expects to be able to provide
24 the information requested.

1 Q All right. One second.

2 COMMISSIONER BROWN-BLAND: Other questions on
3 Commission's questions?

4 (No response.)

5 COMMISSIONER BROWN-BLAND: Questions on
6 Commission's questions?

7 MS. HOLT: Oh, sorry. No.

8 COMMISSIONER BROWN-BLAND: Thought you were
9 contemplating.

10 MS. HOLT: No. I have no further questions.

11 MS. SANFORD: I thought she was working on one,
12 too, so --

13 COMMISSIONER BROWN-BLAND: Yeah. I thought she
14 was contemplating.

15 MS. SANFORD: I know. Thank you. We have no
16 questions.

17 COMMISSIONER BROWN-BLAND: All right. I'll
18 entertain motions.

19 MS. HOLT: I move that the Public Staff Cross
20 Examination Exhibits 1 and 2 be admitted into evidence.

21 COMMISSIONER BROWN-BLAND: Without objections,
22 those will be received into evidence.

23 (Whereupon, Public Staff DeStefano
24 Cross Examination Exhibits 1 and 2

1 that when the Company files a late-filed exhibit, we
2 would also have opportunity to file comments.

3 COMMISSIONER BROWN-BLAND: That's appropriate
4 and will be allowed. The witnesses are excused.

5 WITNESS MENDENHALL: Thank you.

6 WITNESS DESTEFANO: Thank you, Commissioners.

7 (Witnesses excused.)

8 COMMISSIONER BROWN-BLAND: I have one
9 housekeeping matter before another one. I intended to
10 request of the Public Staff that the Public Staff provide
11 the Commission Staff its Excel files for its Final
12 Proposed Order position, including Accounting Division's
13 Excel files and Water Division's billing analysis/rate
14 design Excel files. Is that good with Ms. Holt?

15 MS. HOLT: Yes.

16 COMMISSIONER BROWN-BLAND: All right. I note
17 Mr. Henry's smile, so I think that's possible, I think.
18 And Mr. Allen, we don't want to leave you out. On behalf
19 of your client, a resolution was filed yesterday. The
20 Resolution is entitled Opposition to Carolina Water
21 Service, Inc. Rate Increase Request. The resolve clauses
22 don't necessarily indicate opposition, so I'd like to
23 hear from you about your client's position in a clear
24 statement so that when the Commission repeats it in its

1 Orders, we get it right. What's your client's stand?

2 MR. ALLEN: Sure. Thank you, Commissioner
3 Brown-Bland. The Resolution, as it was dated in
4 September, which predated the Stipulation and Settlement
5 between the Company and the Public Staff, we've reviewed
6 the Settlement, and the Corolla Light Community
7 Association has no objection to the Settlement.

8 COMMISSIONER BROWN-BLAND: And no opposition to
9 the proposed rate increase or just no position?

10 MR. ALLEN: No opposition as the Commission
11 sees fit to allow it to be allowed.

12 COMMISSIONER BROWN-BLAND: All right. Okay.

13 MR. BENNINK: Commissioner Brown-Bland, for
14 clarification, the Public Staff and Company have agreed
15 that Corolla Light will be rolled into Uniform Sewer
16 rates in this case, and I think that's exactly the relief
17 that Corolla Light Community Association was seeking.

18 MR. ALLEN: Yes. I would agree with Mr.
19 Bennink. That is correct.

20 MR. BENNINK: And so we're all in agreement on
21 that point.

22 COMMISSIONER BROWN-BLAND: All right. Thank
23 you for that, Mr. Bennink and Mr. Allen. Is there
24 anything else?

1 MS. SANFORD: Timing of briefs and Proposed
2 Orders?

3 COMMISSIONER BROWN-BLAND: Would 30 days from
4 the availability of the transcript be suitable?

5 MS. HOLT: Yes.

6 MS. SANFORD: Yes.

7 COMMISSIONER BROWN-BLAND: All right. It will
8 be so ordered.

9 MS. SANFORD: Okay.

10 COMMISSIONER BROWN-BLAND: All right. Mr.
11 Grantmyre?

12 MR. GRANTMYRE: Do we know when the transcript
13 will be available? You know, 30 days from today would be
14 January 2nd, and a lot of people don't work between
15 Christmas and New Year's, and trying to get anything done
16 during that period presents some obstacles. You know,
17 these Proposed Orders have to be typed somehow, and
18 there's some older lawyers that can't type.

19 COMMISSIONER BROWN-BLAND: Well, it's not 30
20 days -- it's not 30 days from today, which is the 3rd.

21 MR. GRANTMYRE: But if they're going to make
22 the transcripts available in two days, I don't -- I don't
23 know what the time is. We have no objection at 30 days
24 from the transcripts available, but --

STATE OF NORTH CAROLINA

COUNTY OF WAKE

C E R T I F I C A T E

I, Linda S. Garrett, Notary Public/Court Reporter, do hereby certify that the foregoing hearing before the North Carolina Utilities Commission in Docket No. W-354, Sub 364 was taken and transcribed under my supervision; and that the foregoing pages constitute a true and accurate transcript of said Hearing.

I do further certify that I am not of counsel for, or in the employment of either of the parties to this action, nor am I interested in the results of this action.

IN WITNESS WHEREOF, I have hereunto subscribed my name this 8th day of December, 2019.

Linda S. Garrett

Linda S. Garrett, CCR

Notary Public No. 19971700150