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BEFORE: Commi ssi oner ToNol a D. Brown-Bl and, Presi di ng

Chair Charl otte A. Mi tchel l

Commi ssi oner Lyons Gray

Commi ssi oner Dani el G. Cl odfel ter

Commi ssi oner Ki mberl y W. Duffl ey

Commi ssi oner Jeffrey A. Hughes

Commi ssi oner Fl oyd B. McKi ssi ck, Jr.

IN THE MATTER OF:

Appl icati on by Aqua North Carolina, Inc. ,
202 MacKenan Court, Cary, North Carolina 27511,
for Authority to Adjust and Increase Rates
for Water and Sewer Utility Service in
All of Its Service Areas in North Carolina.

VOLUME: 3



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14 STATE AND ITS CITIZENS IN THIS MATTER THAT AFFECTS THE
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1 P R O C E E D I N G S

2 COMMISSIONER BROWN-BLAND: All right.

3 Let's come back on the record. And, Ms. Sanford, I
4 think we're still on redirect.

5 MS. SANFORD: We are. And, Mr. Becker,
6 you're in place there?

7 THE WITNESS: Yes.

8 Whereupon,

9 SHANNON BECKER,
10 having previously been duly sworn, was examined
11 and continued testifying as follows:

12 CONTINUED REDIRECT EXAMINATION BY MS. SANFORD:

13 Q. Okay. Let's start with a couple of
14 corrections, Mr. Becker. I asked you this morning your
15 annual revenues and rate base. And I think you
16 checked, and I'm not sure how far off you were, but you
17 have the accurate numbers. Would you provide them,
18 please?

19 A. Yeah. It's approximately \$58 million, but
20 that's net of refunds for the trailing 12 months.

21 Q. Okay. That's your revenues at rate base?

22 A. At rate base is -- it's \$220 million. The
23 important thing there to see is not just the rate base
24 but it's the incremental rate bases in between the rate

1 cases. We spend about \$40 million a year in the past
2 several years as we've discussed, and that's just a
3 significant portion. \$40 million of our \$58 million in
4 revenues is spent reinvesting capital on an annual
5 basis, at least over the past couple of years.

6 (Reporter interruption due to
7 microphones being muted.)

8 Q. I think that you determined that you misspoke
9 about the calendar year for the order in your last rate
10 case, which was Sub 497.

11 Do you have a correction to make there?

12 A. Yes. When I was referring to the dates that
13 the rates went into effect and, you know, within a year
14 later, I was referring to the test year versus the
15 dates that the rates went into effect was
16 December of 2018. I think I incorrectly mentioned
17 December 2019 accidentally.

18 Q. Okay. All right. Thank you for that. All
19 right. Now we will move on through the redirect.
20 Let's talk about the conversation you had with
21 Mr. Grantmyre on AMRs. These are the automatic
22 meter -- meter reads?

23 A. Yes.

24 Q. Readers. And I apologize, I have forgotten

1 the exhibit number, but the exhibit was an affidavit by
2 Mr. -- how could I forget his name?

3 COMMISSIONER BROWN-BLAND: I believe
4 that was Mr. Thompson.

5 MS. SANFORD: Yes, it was.

6 Bernie Thompson. I apologize.

7 Q. So you're familiar with that exhibit; you
8 remember the conversation?

9 A. I remember the conversation, yes.

10 Q. And with respect to the deployment of AMRs
11 and the realization of the benefit of AMRs, there was a
12 lot of conversation about this in the Sub 497 case; is
13 this correct?

14 A. That is correct. Extensive.

15 Q. And there was this follow-up report by
16 Mr. Thompson?

17 A. That is correct. That was one of the
18 ordering requirements that came out of the 497 case.

19 Q. 497. And his affidavit is actually 18 pages
20 long; is that correct?

21 A. Subject to check, yes.

22 Q. So cross examination exhibit just excerpted a
23 few pages of that, correct?

24 A. I believe so.

1 MS. SANFORD: So I'm going to ask the
2 Commission to take judicial notice, please, of the
3 entire document, in addition to just the pages that
4 were presented.

5 Q. But I want to talk to you for just a few
6 minutes, Mr. Becker, about reminding us all of what the
7 Company's position is about the duration -- the amount
8 of time that it will take to fully realize the benefits
9 of AMR, and about Aqua's progress towards that result.

10 A. So the full benefits cannot be realized until
11 all of the states are on the technology that's able to
12 provide the usage data and upon development of that
13 platform. As more states and we get more concentration
14 and density of the AMR meter reading capabilities, we
15 will be incorporating that usage data into a platform.
16 Without knowing exactly what that is yet, but we'll be
17 incorporating that into a platform that will allow our
18 customers to be able to independently access that data.

19 But, in the meantime, it's kind of a phased
20 approach. We've been working towards, and we've always
21 had -- I shouldn't say always had, but we've had the
22 ability to go in and pull the 40-day usage data on an
23 ad hoc basis. It was just cumbersome and clunky.
24 Certain people had to be involved in deciphering and

1 pulling the data. We had used it -- I think even in
2 the last case we had already used some of the 40-day
3 usage data to help correct some billing issues or even
4 resolve some conflicts or some customer complaints that
5 they had with the volume by pulling that 40-day usage.
6 We've also been able to find and help customers
7 identify leaks using that 40-day usage data.

8 But the next phase is teaching our CSRs -- we
9 put it now in a back-end platform where our CSRs, which
10 are customer service reps, those are the people that
11 the customers speak to when they call in. If somebody
12 has question related to their usage or challenging that
13 usage, we are going to be training them to be able to
14 go in and pull their usage data and share that with the
15 customer.

16 The capability is there today but the
17 training is ongoing. And we're working -- there's a
18 couple of refinements that they're working on with I
19 think the reporting of it. But that training is
20 expected to happen with the CSRs in the coming months,
21 next one or two months, I believe.

22 So it's going to continue to progress as we
23 get more people -- or more states and customers on
24 that -- around that AMR capability. It will be useful,

1 not just in North Carolina, but for all states.

2 Q. And so -- so even though individual customers
3 can't access data as fully as, for example, say, they
4 can in Cary, North Carolina, often used as an example
5 of the deployment of this technology, that Aqua still
6 maintains that the technology and the moves you're
7 making towards deployment of it are valuable for other
8 reasons; is that correct?

9 A. Absolutely. Yes.

10 Q. And what can you tell us about the level of
11 Aqua's -- both Essential and Aqua North Carolina's
12 ongoing commitment to this project?

13 A. Well, we're continuing -- right out of the
14 bat we did a lot of investigation in and actually
15 collaborated -- and this is in the last rate case -- we
16 collaborated and presented to the Public Staff to show
17 the benefits of this and the cost benefits of going one
18 way versus another. And the driver for this is
19 primarily the operational improvements, some of the
20 reporting that can be pulled from this new technology.

21 MR. GRANTMYRE: I didn't ask about all
22 that stuff on -- I asked about the timing of when
23 it's going to be shared with the customer. And
24 he's introducing evidence that was not involved in

1 the question.

2 COMMISSIONER BROWN-BLAND:

3 Madam Court Reporter, did you get that?

4 THE REPORTER: I did.

5 COMMISSIONER BROWN-BLAND:

6 Madam Court Reporter, you did?

7 THE REPORTER: I did, yes.

8 COMMISSIONER BROWN-BLAND: Okay. All

9 right. Ms. Sanford said she'll move on, so.

10 MS. SANFORD: I'll keep moving, and we
11 won't be here much longer.

12 Q. But let's talk about some of Mr. Grantmyre's
13 questions to you about the experience that Aqua America
14 has had with its AMR program. Do you remember that,
15 Mr. Becker?

16 A. I might need a little refresher.

17 Q. I think Mr. Grantmyre asked you -- indicated
18 to you that -- or asked for your agreement as to
19 whether Aqua America has been utilizing AMR for a
20 considerable number of years.

21 A. Yes, I do recall that.

22 Q. Yeah.

23 A. I do recall that, yes.

24 Q. And his questions included -- well, his

1 questions will speak for himself. But he indicated,
2 and you agree, that Aqua America has had the technology
3 for a considerable period of time.

4 And so my question to you is, what do you say
5 about the experience of Aqua America with respect to
6 their ability to deploy customer-specific information,
7 or some of the other things Mr. Grantmyre asked you
8 about, in this 15-year-old project?

9 A. Well, the other states have ruled this
10 capability out for RF metering much before we did. We
11 were the last to board, or last to come on board. And
12 throughout the time, the initiative was basically to
13 take advantage of a lot of the other benefits that the
14 AMR metering -- RF metering has over the manual meters.

15 So Aqua has been committed to making sure
16 that we have the most current technology and taking
17 advantage of the reporting capabilities internally to
18 provide metering services and better and accurate
19 billing.

20 Q. And so are you learning from the experience
21 of Aqua America and the other states that were earlier
22 adapters?

23 A. Well, absolutely. We've seen that the
24 estimate usage has gone down significant -- or the

1 estimates have gone down significantly with the use of
2 RF. When we first did our rollout and our cost benefit
3 analysis, to do it in North Carolina, we took advantage
4 of all the knowledge we had in the projects of
5 implementation and change-outs that we've had from the
6 other states and incorporated that into North Carolina.

7 So it benefitted actually by waiting in that
8 respect, because now we are on a newer technology that
9 has more capabilities. And now we're waiting for the
10 rest of the -- the rest of the states to kind of catch
11 up to using this and saturating their footprints with
12 this newer technology.

13 Q. Okay. Thank you. I want to go back to a
14 topic that we may have touched on before, and this, I
15 guess, actually goes back to the proxy statement with
16 which Mr. Grantmyre's examination began.

17 Looking at Essential's financial attributes
18 that were discussed, does it benefit North Carolina
19 customers for Essential to be a healthy corporation?
20 And if, so how?

21 A. Absolutely. Essential and our senior
22 management are well -- they're very experienced and
23 it's a well-run -- well, I'm a little bias, but it's a
24 well-run organization. But the proof is in the pudding

1 in there. I mean, if you look at the benefits that
2 come down to the customers, we have centralized
3 services, they have a top-notch compliance department,
4 engineering support that comes out of corporate. Our
5 customer service. There's the cost savings from
6 centralizing a lot of these services, including even
7 insurance risk.

8 And you can see it even in the positive
9 management of our debt where we have now a 4.21 percent
10 debt interest cost, which is -- it's extremely low.
11 Compared to a lot of peers, it's very low. And that
12 savings is a direct cost savings to our customers.

13 Q. Okay. Thank you. Let's move now to the
14 discussion about WSIC and SSIC and the protracted
15 conversation that you had about the timing of the
16 completion of WSIC and SSIC projects. Do you remember
17 that?

18 A. I do.

19 Q. What is the energy -- I'm sorry, the -- too
20 much pizza for lunch here, I think -- the industry
21 practice with respect to the nexus between big capital
22 investment and the timing of a rate case?

23 A. Well, it's --

24 Q. How the decisions interrelate, if they do.

1 A. I'm sorry, the decisions interrelate between
2 us and -- I'm sorry, could you repeat?

3 Q. Well, I'm asking what's the -- let me
4 rephrase it.

5 What is Aqua's practice with respect to the
6 timing of completion of a big capital project and the
7 institution of either a rate case or a WSIC filing?

8 A. Our primary focus when we're planning all of
9 our projects that we're able to plan -- and I need to
10 make that clear -- is most of our larger projects --
11 all of our large projects are planned out and
12 engineered, so they usually take several months to even
13 multiple years. When it comes to compliance, or
14 safety, or an immediate need, an environmental issue,
15 there is no strategic planning to the timing. It's
16 done. If we need to get it done, we will do it.

17 Where the projects can be planned and timing
18 arranged, we each do everything we can to minimize the
19 lag, especially on those significant projects. Whether
20 it's a WSIC/SSIC filing, which can be shorter term
21 projects whether they're filters or not, we try to
22 calendar those, the start and finish of those, so we
23 could minimize the lag, which is a strong management
24 practice. We're going to try to minimize that rate

1 I ag.

2 But when it comes to even non-WSIC/SSIC
3 projects that are larger, like a wastewater plant
4 overhaul that could be several million dollars, we will
5 actually plan our rate case filings around it to make
6 sure that we can capture as much of the new rate base
7 into our rate case as possible.

8 Q. And so is it correct that when you can --
9 when you can structure things in this way, you do try
10 to time the completion -- and I'm only talking now
11 about the completion of a project, of a large
12 project -- you do try to time it with an opportunity to
13 recover rates, whether through a rate case or a WSIC
14 filing, right?

15 A. Absolutely.

16 Q. Is it your understanding that that is
17 standard industry practice in the regulatory arena?

18 A. I'm pretty sure it is.

19 Q. And what's the impact of this practice of
20 this deliberate goal on the occurrence of regulatory
21 lag?

22 A. It minimizes it. You know, it minimizes it
23 so we can actually start recovering -- recovery is the
24 wrong word, because we don't actually recover what's

1 lost, but we start earning on the value of that rate
2 base at a shortened period of time, so we could put it
3 into rates sooner. And again, because we use a
4 historic test year, everything has to be done -- we
5 have to complete it first and then we get recovery
6 later. And the difference between that is lag. And
7 the shorter I can make that lag, the better I can do
8 and the closer I can earn my authorized ROE.

9 Q. Are you aware of there having been questions
10 or objections to this practice of trying to correlate
11 completion of projects and rate case -- rate recovery
12 opportunities?

13 A. I don't believe I've ever heard anybody say,
14 or what was objected to us trying to shorten the lag of
15 any kind of project.

16 Q. Okay. And regulatory lag has been discussed
17 as a very serious issue to this company, right?

18 A. It is. It's a primary issue, why we are here
19 with this during this time of heightened -- continued
20 heightened capital investment.

21 Q. Does -- do periods of increased spend, I'll
22 call it, increased investment, does that exacerbate
23 your concerns about regulatory lag?

24 A. It does. Again, the more I spend since the

1 last rate case or the last WSIC/SSIC filing, that goes
2 into my equity, and it's borrowed money from my
3 shareholders. And it just further dilutes my ability
4 to earn the ROE until I can actually start earning on
5 those investments.

6 Q. Okay. Thank you. All right. I'm going to
7 move to what I believe to be my last line of inquiry,
8 though I will ask at the end of it for a couple of
9 minutes to check my notes here. Let's turn to this
10 issue of notice.

11 Mr. Grantmyre had a number of questions and
12 comments about the practice employed by Aqua in
13 providing notice of the hearings that were scheduled
14 for earlier in the year but which had to be canceled
15 because of the virus; do you recall that conversation?

16 A. I do.

17 Q. Prior to the inquiry this morning, did you
18 have notice of any concern about the method Aqua used
19 to give notice of those hearings?

20 A. I had not.

21 Q. Do you have any knowledge of the efforts
22 undertaken internally in your organization and with
23 your legal counsel to try to investigate the various
24 forms of notice -- notice both with respect to cost and

1 intervals between the notice and the hearing?

2 A. Yes. For both the initial notice that was
3 sent out in March, the customer notice that came as a
4 result of our application being accepted, and notice to
5 the customer in March, I know there was extensive
6 discussions between Robin Lambeth (phonetic spelling),
7 my executive assistant, and our legal counsel. So I
8 believe with the Public Staff, and I also believe with
9 the Commission trying to understand what the timing
10 requirements were going to be.

11 So I know that there was an extensive amount
12 of work back and forth then, as well as the newer
13 notice that's now going to be sent out announcing the
14 new customer hearing date.

15 Q. And the latest notice, do you know what class
16 of mail service that that has been sent?

17 A. Yeah. I believe actually Mr. Grantmyre even
18 said that this last notice was sent -- was going to be
19 sent out first class mail.

20 Q. Correct. Thank you for that. With respect
21 to the earlier notice, do you know what kind of mail
22 service Aqua used? What US Postal Service
23 classification of mail service you used?

24 A. Yes. So I was able to get that information.

1 It's the standard presort mail that did, in fact, have
2 ability for return mail.

3 Q. And have you used that before?

4 A. I believe we used it in the last case.

5 Q. What -- what do you know, if you know, about
6 the standard period of time required to mail notices
7 that are -- or pieces of mail that are sent using
8 that -- that classification of service?

9 A. Using the standard presort mail, I understand
10 it's three to nine days is the expected delivery time
11 period.

12 Q. Okay. And when did you send your -- when
13 were your notices sent for the first set of hearings?

14 A. The first set of hearings was sent in the
15 first part of March. I believe March 3rd, 4th, and
16 5th, to the different rate entity customers.

17 Q. And when was the first public hearing
18 scheduled?

19 A. April 13th was the first public hearing that
20 was established.

21 Q. So the notices were sent more than a month
22 prior to the hearing, correct?

23 A. Yes, yes, yes.

24 Q. With estimated delivery intervals of three to

1 nine business days from when they were sent?

2 A. That's correct. In fact, we have several of
3 our employees who are also customers, and we verified
4 with them that they had received it, I think, on
5 March 11th.

6 Q. And did you -- do you have any employees who
7 are Aqua customers?

8 A. Yes. That's what I meant by that is we have
9 several customers who we confirmed they had received
10 their notice on March 11th.

11 Q. Did you receive any return notices?

12 A. I understand we did receive a few.

13 Q. Does that indicate to you that there is a
14 problem with the delivery protocol?

15 A. No. I think on the contrary. I mean, the
16 fact that we verified that our own employees received
17 the customer notice by the 11th, and then that we
18 actually did receive some return validates that the
19 delivery method worked. And there was at least 30 days
20 provided between the delivery of most, if not all, of
21 the customer notices.

22 Q. And have you -- and perhaps this is how I
23 started the examination.

24 Have you heard any complaints about this? Is

1 there any -- do you have any reason to think that the
2 notice procedure you used has not been effective or has
3 had some flaws?

4 A. I have not heard a single thing about the
5 customer notice not being received, other than when
6 Mr. Grantmyre indicated he wanted it sent out first
7 class mail, which, again, I understand this last
8 version is being sent out first class.

9 Q. Is there a price differential between the
10 standard presort and first class?

11 A. I believe so, yes.

12 Q. If you believe you have the time available to
13 use standard presort, is it an exercise in prudence to
14 try to save money?

15 A. Absolutely. That's why we did what we did.
16 In talking -- you know, we have to make sure that these
17 are being delivered, and there was a lot of different
18 methodologies, but we have to make sure that we're
19 adhering to the time. You know, we could use billing
20 inserts, which is a lot cheaper than sending anything
21 direct, and that goes along with our normal bill. But,
22 unfortunately, that takes a full bill cycle. So the
23 timing wasn't available for that.

24 We had the standard presort mail, which three

1 to nine days delivery, as long as you can get it in
2 that window of time. There's the US mail. We could
3 have the return delivery on it which should ensure that
4 the folks are getting it who need to get it. But if we
5 needed to get it there quicker, first class mail, I
6 think the delivery time is one to three days from, you
7 know, the printer sending it. So if we need to
8 expedite it that quickly, then that's what we do. And
9 that's what we did in this last round -- or we are
10 doing in this last round. I think that's actually
11 going out this week. So we try to save as much money
12 as possible and do it within prudent means.

13 Q. And for this last round, you also examined
14 the various options of delivery; is that correct, with
15 respect to mode and cost?

16 A. I'm sorry, I cut you off. Repeat that.

17 Q. Well, and in this last round of notices, the
18 one that's pending, the revised notices of the revised
19 public hearing, you also conducted the evaluation of
20 modes of delivery, cost and time required, right?

21 A. Yeah. My executive assistant, Robin Lambeth,
22 went extensively working with the printer to understand
23 what his requirements would be to be able to deliver it
24 by a certain date. We went back and forth to make sure

1 we could accommodate the delivery based on what the
2 Commission had requested.

3 Q. And so if it's a prudent decision to send it
4 by the way you sent it, then it is one that benefits
5 ratepayers; is that correct?

6 A. Absolutely.

7 MS. SANFORD: Commissioner Brown-Bland,
8 I don't think I have any more questions. If I
9 might have a moment, I will check my notes. Can I
10 do that?

11 COMMISSIONER BROWN-BLAND: You may.

12 MS. SANFORD: Thank you. I will be just
13 a minute. Thank you.

14 (Pause.)

15 MS. SANFORD: Thank you,
16 Commissioner Brown-Bland, I have no more questions
17 on redirect.

18 COMMISSIONER BROWN-BLAND: All right.
19 Thank you. Questions by Commission? I can see
20 each of you. Commissioner Clodfelter?

21 COMMISSIONER CLODFELTER: Thank you.

22 Ms. Sanford? Ms. Sanford?

23 MS. SANFORD: Yes, sir.

24 COMMISSIONER BROWN-BLAND:

1 commi ssi oner Clodfel ter, you went back on mute.

2 COMMI SSI ONER CLODFELTER: Yeah. I'm
3 going to ask Mr. Becker a couple of questions about
4 a topic that you and Mr. Grantmyre both covered in
5 your questioning. In the course of doing that, I
6 may refer to the confidential information that you
7 submi tted over the weekend, and I think you may
8 have filed it in the docket. I think I can ask the
9 questions without di scl osi ng any of the
10 confidential information that's in that filing.

11 What I would ask you to do is to think
12 about how to put that into the record, because I
13 will want that information in the record. I'm the
14 original source of that question that was posed to
15 the Company. So, at some point, I will ask you to
16 think about how to put that into the record. Of
17 course, preserving the confidentiality information,
18 but I wanted to go ahead and pose that to you
19 before I start questioning Mr. Becker.

20 MS. SANFORD: Yes, sir, and thank you
21 for that, we will give that some thought. This was
22 extremely -- it was a difficul t and a sensi tive
23 matter to pull thi s exhi bi t together. So we do
24 appreciate your effort and care, and we will work

1 to try to figure out how it can be handled. Thank
2 you.

3 COMMISSIONER BROWN-BLAND: Let me
4 interrupt to say, Ms. Sanford, we had discussed
5 having a number. Do we have that number, and do we
6 need to have a confidential session? Because we
7 could do that and get it on the record with the
8 court reporter.

9 MS. SANFORD: Am I on mute? No. Well,
10 we can provide -- I mean, yes, we have bridge
11 numbers, Aqua does, and we can provide that. And
12 if it is to be discussed -- I mean, I don't know
13 what the questions will be here or if there is a
14 workaround, but if this is to be discussed in a way
15 that reveals basically any of those numbers that
16 are in there, that is very sensitive, and I think
17 we do need --

18 COMMISSIONER CLODFELTER:
19 commissioner Brown-Bland, I don't intend to get
20 into the details of the exhibit. I may refer to
21 the information in the exhibit in a generic way
22 that doesn't disclose any of the details. But I
23 need to refer to it in part because that will be
24 the basis on which Mr. Becker will be responding.

1 And I think he can clearly respond without --
2 without disclosing any information. I think you
3 and Ms. Sanford can check me as I ask the question
4 and can raise a red flag if I'm straying. I don't
5 think I will.

6 COMMISSIONER BROWN-BLAND: That's well
7 and good, and I was just going to add, yes,
8 Ms. Sanford, this is your client's information, so
9 we'll put you on guard duty.

10 MS. SANFORD: All right.

11 COMMISSIONER BROWN-BLAND:
12 commissioner Clodfelter.

13 COMMISSIONER CLODFELTER: Thank you.

14 EXAMINATION BY COMMISSIONER CLODFELTER:

15 Q. Mr. Becker, you were asked by both
16 Mr. Grantmyre and Ms. Sanford questions about the
17 difficulty the Company has had over the last 12 months
18 in achieving the Commission-authorized ROE in the last
19 rate case, 497 rate case. And I believe, in response
20 to one of Mr. Grantmyre's questions, you testified this
21 morning that your actual -- actual ROE that you
22 realized on an annualized 12-month basis is about
23 300 basis points short of what the
24 Commission-authorized ROE was in the last rate case.

1 Do you recall that, sir?

2 A. I do.

3 Q. Well, I've heard your explanation in your
4 responses to Mr. Grantmyre and Ms. Sanford about what
5 are the drivers of that difficulty you're having in
6 achieving the authorized ROE. And so my question
7 really is, when I look at the confidential filing that
8 the Company made with respect to this situation with
9 the other Essential Utilities' water and sewer
10 affiliates in other states, and when I look at that, I
11 could see -- and this, of course -- it would be the
12 public part -- that this is the public part of that
13 filing -- that the authorized ROE for Aqua
14 North Carolina is not materially different from the
15 authorized ROEs in the states where other Essential
16 Utilities operate. Some are a bit higher, some are a
17 bit lower. The authorized ROE in the 497 case in
18 North Carolina is well within the range of the total
19 universe for the group of affiliates.

20 And so my question is that, when I look at
21 the rest of the chart, it appears to me that the other
22 Essential Utilities affiliates do not seem to be having
23 the same degree of difficulty in achieving their
24 authorized -- Commission-authorized ROEs as is Aqua

1 North Carolina. And so my question to you --

2 COMMISSIONER CLODFELTER: I think --

3 Ms. Sanford, I think I just got through the
4 reference without disclosing anything confidential.

5 MS. SANFORD: I think so, too, and I
6 thank you.

7 Q. Yeah. So my question to you is this, is what
8 is so different about the other states in which
9 affiliates are operating than the situation that is
10 confronting you in North Carolina? What is so
11 different in those places than the situation that
12 you're facing that makes it difficult for you to reach
13 your authorized ROE?

14 A. Great question, Commissioner Clodfelter. I
15 think there was a couple of things. One, the need for
16 capital infrastructure spend -- the increase in our
17 rate base and comparative to what's already in -- on my
18 rate base, and \$40 million when I'm -- you know,
19 \$58 million is what my revenues are. So the volume of
20 capital spend needed to maintain, repair, replace,
21 maintain compliance, is significant. It's ramped up
22 significantly.

23 And because of that level of capital need,
24 you know, I'm spending much quicker than I can recover

1 with the current mechanisms. So that leads me into the
2 next piece of this. The mechanisms that are in place,
3 granted we have WSIC/SSIC, which has been a help. You
4 know, we drafted it, we put it together. I think it
5 was a collaborative process, as Mr. Grantmyre had said
6 earlier, that they defended -- defended it at the
7 Supreme Court with the customer protections that were
8 included. But we've now realized, after we've been
9 doing this, what, since I think 2014 is when it got
10 approved. So after several years we've refined the
11 process. We do spend a significant amount of WSIC/SSIC
12 monies on an annual basis, a big piece of our budget.
13 But it's becoming less and less as we spend more. The
14 eligible projects -- I'm sorry, the projects that are
15 eligible for WSIC/SSIC recovery, it could be expanded.
16 The cap, although we haven't met the cap -- I think we
17 did in this last case for a couple of the areas, the
18 cap could be expanded.

19 So if the eligible items are expanded for
20 more items to be recovered, we could reduce that lag.
21 Some of the tools in the other states, they do it on a
22 perspective basis, they'll have filings on a quarterly
23 basis which helps further reduce that lag. And then
24 again, some have like a projection. There is other

1 states that have a future test year. So there's a lot
2 of tools.

3 And I'll say the other thing is, you know,
4 our consumption that is utilized in rate design is
5 based on a three-year average history, right? And I
6 know there's a lot of testimony between Mr. Junis and
7 Mr. Thill on consumption increasing and decreasing, or
8 during a decreasing climate, but overall, we know that
9 consumption has declined pretty consistently. And when
10 we're using a three-year historic average, you're
11 basically -- you know, the midpoint of those three
12 years -- you take out that seasonality, and the
13 midpoint of that three years is a year and a half ago.
14 And that's what's used as of -- you know, our test year
15 gets updated through the post-test year, then we
16 finally get rates maybe in October. So we're looking
17 at two years ago. And if you're in any kind of
18 decline, whether it's 1 percent a year -- I think it's
19 averaged about one and a half -- again, I think there's
20 some argument over how much it's been. But a small
21 amount -- if we're coming out of the gate with a
22 consumption that is higher to use than a rate design,
23 we're not going to earn our capital out of the hole.

24 You know, so once those rates are established

1 and we're using consumption that was developed two
2 years ago, and we're in a declining consumption period,
3 I cannot earn that. Now, there's a chance I could.
4 And we're putting other mechanisms in place. We have
5 the CAM that we have not been able to take advantage
6 of. So hopefully that will help that issue once we can
7 get it into the rate case -- our next rate case mit
8 will be incorporated.

9 But there's a lot of tools to help us reduce
10 lag, and that mixed -- in other states that we don't
11 necessarily have here yet that we're working to try to
12 develop and expand upon. And that, combined with our
13 heightened level of capital spend, much above our
14 current depreciation -- I keep bringing that
15 depreciation number back in here -- has a significant
16 upward pressure on our rates. And because we're
17 spending so quickly, that's why you're seeing, you
18 know, a year, year and a half after our last rate case
19 that we're already, you know, three percentage points
20 or 300 basis points below our authorized ROE.

21 Q. Thank you for that. You got the question.
22 You got it, and so thank you. But there was a lot
23 packed into your answer, so I want to sort of
24 disassemble some of the components and ask you some

1 follow-up on a couple of the individual components.

2 To the extent that you're facing a situation
3 where your consumption levels are declining over time,
4 is that not also the case for your affiliate --
5 affiliated to these in other states? Are they not
6 experiencing similar declines in average consumption of
7 water?

8 A. I can only assume so. I do not know that for
9 a fact. When I was in Virginia, I do know that that
10 was the case in Virginia as well.

11 Q. Thank you for that answer, because again,
12 without disclosing any of the information in the
13 confidential exhibit, Virginia does appear to be closer
14 to North Carolina in some of the indicators than -- on
15 that exhibit than other states are. So thank you for
16 that. Another piece of your answer I think -- well, we
17 just don't know the answer about consumption levels in
18 the other states.

19 Another piece of your answer seemed to
20 suggest to me, at least, as I listened to you that this
21 may be in part a transition issue. That once we are
22 far enough and down the road on a WSIC and SSIC, and we
23 have the CAM mechanism up and running, and you've had
24 more experience in that, and you've gotten your capital

1 program in full gear, that maybe we'll begin to see the
2 Company do a better job of approximating or actually --
3 actually realizing its authorized ROE.

4 Is that part of what I heard you say, that
5 we're in a sort of transition couple of years here?

6 A. I think that we are in -- and you explained
7 it as a transition. I would agree. I don't know what
8 my future capital need is going to be. If it's
9 something I'm staying in a \$40 million -- 36, 38,
10 \$40 million. If I stay there, eventually my
11 depreciation will catch up to me. Eventually the cost
12 of that level of rate base will be included in my
13 rates. It's a very good observation. And I think that
14 is potentially the case, assuming I'm going to maintain
15 a \$40 million level spend. I'm just not there yet,
16 right?

17 And I should add, you know, there are other
18 things that go into us not earning. Just one thing
19 notably is getting recovery of our actual costs
20 incurred. Now, there's always going to be the
21 determination as to whether or not we're spending it
22 prudently. But our expenses that we incur, whether
23 we're self-insured and getting full recovery of our
24 insurance, there's a lot of things that we don't get

1 recovery necessarily for. Mr. Grantmyre talked about
2 the sampling costs in the last rate case. What we
3 recovered was the minimal -- well, I'll say this a
4 little bit loosely, but the minimum requirement of
5 sampling is what we got recovered for. We did
6 additional sampling that wasn't recovered, right?

7 Well, we paid for that, but it was in the
8 interest of our consumer. In the best interest of our
9 consumer to protect their -- protect their -- the water
10 quality, but to protect them. So we do this heightened
11 level and, you know, our compliance team is fantastic.
12 You know, the experience from, you know, Dr. Crockett
13 down with his whole compliance team in corporate. And
14 we take this seriously, and we are looking out for the
15 customers in every aspect and where we can. Whether
16 it's recoverable or not -- and again, Mr. Grantmyre
17 asked me about that specific statement under the veil
18 of not recovering -- we still spent the money. We
19 still spent the money on the sampling. And whatever we
20 need to do, we're going to do because it's right. But
21 we get challenged on a lot of things based on how we
22 operate. And we're the experts trying to make these
23 decisions to operate, but sometimes when it comes to
24 the rate cases, we get challenged, and those costs or

1 responses get cut.

2 Q. Well, does that not occur in the other states
3 where Essential Utilities has affiliates? I mean, I
4 know you've had experience in Virginia, but surely you
5 talk among your colleagues and you compare notes with
6 your colleagues. Is that -- is that an unusual
7 experience in North Carolina?

8 A. I would say there that -- I can't say
9 specifically, Commissioner Clodfelter, but I would say
10 that the Public Staff and the consumer advocate here in
11 North Carolina pays a lot more -- or focuses a lot more
12 on our expense levels. A much more intense
13 investigation and challenging to our cost structure.

14 Q. Well, let me leave that for a moment. Let me
15 stay with the capital spend issue.

16 Is it the case that in the other states --
17 and, again, you've had the Virginia experience, but you
18 talk to your colleagues. Is it the case that they're
19 experiencing a different level of capital investment
20 system across their systems? Are they more mature?
21 Are the systems more mature? Are they subject to
22 different environmental regulations than in
23 North Carolina?

24 Again, what I'm trying to focus on is what's

1 driving the difference in those states so that I can
2 isolate what's happening here in North Carolina.

3 A. Sure. There's other states that are spending
4 a significant amount of capital as well. What the
5 ratio is compared to what's already in the rate base,
6 I'm not really sure. But what's different about
7 North Carolina is I make up 50 percent of all of the
8 water systems in all of Aqua North Carolina. I have
9 750-ish water systems. That's half. I'm only
10 10 percent of the customer base. I have 59 wastewater
11 treatment plants. I have a third of all of the
12 wastewater treatment systems in all of Aqua.

13 So the nature of us being as remote an
14 small -- and I have it in my testimony somewhere. The
15 average system size, I want to say, I'm trying to
16 recall, it's 110 customers per system. But if you look
17 at the median, you know, taking out the outliers, I
18 think it's just north of 50 customers per system. Yet
19 these systems all have more than two wells. You have
20 to have more than two wells if you have more than one
21 connection. They all still have two wells. They still
22 have a distribution system. Most of them or many of
23 them are very rural, which means you have less density.

24 A lot of our other states don't have that.

1 In fact, they are very concentrated. Some of the
2 larger systems in our northern states are surface
3 water; we're well water. Not that we don't have well
4 water in other states -- Virginia is another one that
5 has well water, but we're three times the size of them.

6 The other thing we have is a lot of
7 developer -- I'm not saying this to say that the other
8 states don't have this, but we are very heavily
9 developer oriented, where the developer builds a system
10 and then contributes it to us. So as I mentioned
11 before, 38 percent of our total plan is contributed.
12 And it's contributed from a long time ago, and that
13 stuff's now coming due. So where it had no rate base
14 previously, we're replacing it with earning capital.
15 So now we're using our invested money to replace that.

16 So there's a few distinct differences that
17 are generic -- generically different than some of the
18 other states that I think contribute to why we're
19 spending so much. And the biggest of which is we're
20 very decentralized in 51 counties, right, with the 750
21 systems, 59 wastewater plants. We're massively wide,
22 yet we're individually small.

23 And each one of those systems requires not
24 only the similar capital investment, but it also

1 requires probably a larger amount of contribution of
2 corporate services, right, and support, customer
3 service. Our compliance, each one has its own permit.
4 So that volume, it causes us to be a little different
5 than the other folks and probably a little bit more
6 expense heavy as well.

7 Q. So that would differentiate you from
8 Pennsylvania where you may have fewer systems but much
9 larger systems with a much larger customer base per
10 system?

11 A. Yes.

12 Q. Well, I -- and I appreciate also your
13 referring to regulatory differences, because that was
14 actually one of the things that was behind my question,
15 was to try to identify are their differences in the
16 regulatory regime in the other states that make it
17 easier for them to achieve their authorized ROE. And I
18 think you alluded to and identified some of those, so I
19 appreciate that.

20 COMMISSIONER CLODFELTER: Ms. Sanford,
21 just a request, and I don't want any extra effort
22 on this or a special exhibit or anything, but in
23 your post-trial briefing, I would just be
24 interested if you have the space, and the time, and

1 the inclination to want to do it, to maybe point
2 out concretely two or three of those more
3 significant regulatory differences, future test
4 year, for example, and tell us in which states, for
5 example, there's a future test year or a multiyear
6 rating plan. That would just be useful information
7 for us to know.

8 And with that, Commissioner Brown-Bland,
9 that's all I have.

10 COMMISSIONER BROWN-BLAND: All right.
11 Ms. Sanford, you were on mute. If you intended to
12 say anything, we didn't hear you.

13 MS. SANFORD: I just said we'll
14 certainly look into it, and thanked
15 Commissioner Clodfelter. I've got the note of what
16 he's asking for, and we will certainly do that. Be
17 glad to do it.

18 COMMISSIONER BROWN-BLAND: Okay. Thank
19 you. Other questions from the Commission?

20 Commissioner Duffley?

21 EXAMINATION BY COMMISSIONER DUFFLEY:

22 Q. Good afternoon, Mr. Becker.

23 A. Good afternoon, Commissioner.

24 Q. So on follow-up to Commissioner Clodfelter's

1 question and your earlier testimony, you were stating
2 you were spending about three or four times your
3 depreciation level, and you listed out the different
4 components, and it was maintaining, replacing, and
5 repairing the system. And you had another bucket of
6 AMRs, and then another bucket of environmental
7 requirements.

8 Can you just generally say, like, the
9 percentage for each of those buckets? So -- so
10 40 percent would be maintaining, replacing, or
11 repairing and so on.

12 A. I might be able to -- I think I have that in
13 my direct somewhere that might help with that. If I
14 have to guess, I'm a little worried about my percentage
15 estimates. Let me see if I can find it here really
16 quickly.

17 (Witness peruses document.)

18 So it's not exactly your question,
19 Commissioner Duffley, but on page 31 of 35 of my
20 testimony --

21 Q. We lost you, Mr. Becker.

22 A. I'm sorry. What was the last thing anybody
23 heard?

24 Q. Page 35, you said?

1 A. The question on page 30 of 35, and the answer
2 to that question is on page 31 of 35. And it's not,
3 again, the exact answer, but it will give you the --
4 some approximate of what we spend. Now, this is since
5 the last rate case, so there's a little more --

6 (WebEx sound failure.)

7 (Reporter interruption due to poor
8 audio.)

9 COURT REPORTER: If you could repeat
10 that, Mr. Becker.

11 THE WITNESS: Sure. The answer that I
12 have on 31 of 35 is, "What's the nature of the
13 capital projects incurred since the last rate
14 case?" Now -- and then, Commissioner Duffley, I
15 know you asked about the response that I had
16 earlier. I'm trying to estimate that percentage.
17 And that would be -- I don't feel confident my
18 accuracy would be very strong in doing that. But
19 on page 31 of 35 of my testimony, there's various
20 categories between water and sewer that estimates
21 the spend since the last rate case.

22 Now, that's not just one year. There's
23 a bigger amount of time in here, but it does try to
24 categorize I think what you're intending here to

1 see, which is where are we spending our money and
2 what kind of categories are there.

3 Now, I guess in this one you'll see we
4 spent \$2.4 million in meters. That was one of
5 my -- one of my responses earlier about AMR. Does
6 this -- does this help you, or do you want to ask
7 further classifying questions?

8 Q. Yes. This is helpful. So with respect to
9 the other categories on page 31 of 35, there's not the
10 environmental piece of it. Where would I might be able
11 to find that number?

12 A. I could probably put something together for
13 you separately, like filters and treatment equipment I
14 would consider some. I'm not sure if all, but
15 \$6.9 million, that would fall under environmental.
16 Some of the wastewater plant structures and improvement
17 would have been done and driven for an environmental
18 need either because it was aged infrastructure and
19 we're worried about spills, leakages. Needs and
20 services, you know, if we have --

21 COMMISSIONER BROWN-BLAND:
22 commissioner Duffley, I think you need to go back
23 on mute. Continue.

24 THE WITNESS: So within these

1 categories, I don't know if we necessarily track
2 the environmental spend, but within each of these
3 categories, a lot of them are driven to address
4 environmental issues.

5 Q. Okay. Thank you.

6 COMMISSIONER DUFFLEY: I don't have
7 anything further.

8 COMMISSIONER BROWN-BLAND: All right.
9 Other questions from the Commission?

10 (No response.)

11 COMMISSIONER BROWN-BLAND: All right. I
12 have a few, Mr. Becker.

13 EXAMINATION BY COMMISSIONER BROWN-BLAND:

14 Q. And I think I'll pick up a little bit of
15 where you were leaving off with the last two
16 commissioners.

17 So even though Company and the Public Staff
18 have resolved certain requests and withdrawn the ones
19 for consumption adjustment mechanism and also for the
20 deferred accounting for some of the capital spends,
21 what's the experience on those type of tools in your
22 other regulated states? Do you see -- in particular,
23 the deferred accounting treatment, are you seeing that
24 to some much greater degree in the other jurisdictions

1 of Essential?

2 A. Yeah. I specifically don't know which states
3 have which mechanisms and how they are very different.
4 What I would say is, in deferred accounting, if you use
5 a future test year, you could potentially cover that
6 angle. I'm not aware of any other states having it as
7 a regular policy. I'm not aware of them not having it,
8 though.

9 And then I think you mentioned the
10 consumption adjustment mechanism. I believe we were
11 the first state to be able to get legislation that
12 allows us to do that. But again, we're also using a
13 historic test year where that may not be necessary in
14 other jurisdictions.

15 Q. All right. And so we being the State of
16 North Carolina for consumption adjustment?

17 A. Yes, yes, yes.

18 Q. Could you update the Commission about the
19 Company's evaluation and pursuit of a permanent
20 alternative source of water for Bayleaf master system,
21 or for those points of entry in that system where you
22 don't have a reasonable belief that the point of entry
23 will be suitable for domestic use after reasonable
24 corrective action?

1 A. So most of our water quality plan that we've
2 been focusing -- or that we've been accomplishing over
3 the past several years has been directed towards the
4 Bayleaf, the North Raleigh systems. That seems to be a
5 higher concentration of iron and manganese. As you
6 recall, we have the group 1, 2's and 3's. That's in
7 our plan. I can further explain which each group is if
8 you'd like. But we categorize the different sites into
9 group 1's, 2's and 3's based on their water quality,
10 based on customer complaints, and based on NODs. And
11 we've been focusing a lot of our attention, monies, and
12 efforts towards addressing the North Raleigh water
13 quality. And we've made significant improvements.

14 And I think Commissioner Brown-Bland can see
15 in witness Berger's testimony that she has a couple
16 charts where she talks about the lab -- the lab D's,
17 they're called -- they're work orders. They're a type
18 of work order that are issued to -- when somebody calls
19 in about a water quality issue. So you'll see in her
20 testimony the lab D charge where we've made -- you can
21 see the significant improvement, particularly in
22 Bayleaf, since we started this project.

23 So the customer complaints have gone down for
24 water quality. We've implemented the focus group,

1 which is -- you didn't ask that question, but that's
2 really helped with us trying to address some of those
3 issues up there. So we continue to make improvements
4 in the source sites that -- in collaboration with the
5 Public Staff using the executive summary process. You
6 know, we've made a lot of efforts in -- I don't know
7 the exact number that we've installed in that area of
8 filters, but it's been -- the majority of the filters
9 have been installed in that area to address the water
10 quality.

11 We additionally, after the 497 case, reached
12 out to the City of Raleigh to see if we could
13 coordinate a purchased water solution. Maybe bevel off
14 some of those areas that had -- some well sites that
15 had poor water quality. They are not interested. I've
16 had several discussions, face-to-face meetings with the
17 City of Raleigh Utility Department, the executive
18 director there, and that is not something that the City
19 is willing to do, which is provide water outside of
20 city limits.

21 So we've not been able to make progress with
22 looking for an alternative source of purchased water.
23 What we have done also is, our hydrogeologist up in
24 corporate has come down -- he's in North Carolina

1 regularly, just because of all the water -- the well
2 sites that we have -- to try to identify different
3 areas that could be productive for new water sources.
4 So we've identified several. Some of them we have not
5 been able to move forward on for various reasons, but
6 that's another effort that we have been making.

7 And any opportunity that we have, we actually
8 recently looked at buying a parcel of land from the
9 County to see if we could put a well on that site to
10 help contribute to the source. And that -- it turns
11 out that we're not able to build on that location. So
12 we continue to look for new sources.

13 With the conservation effort that was in --
14 was it W-159, that is also the source of more testimony
15 with Mr. Junis and Mr. Thill later on. We're hopeful
16 that that conservation -- our conservation rate design
17 will help minimize the demand, and particularly during
18 irrigation time periods of August and September or
19 July, August, and September. That high demand, you
20 know, drops our well production -- doesn't drop the
21 well, but uses all the available capacity that we have.
22 And when it gets that low, it produces water quality
23 issues.

24 So hopefully with that rate design, that

1 conservation rate design, that will also help us from
2 an operational perspective be able to manage our water
3 flow and avoid heightened capital that we might need to
4 do to try to find alternative sources.

5 Q. All right. Thank you. And since you
6 mentioned the focus groups, I did have a question on
7 that. With regard to the focus group and your program
8 that you call Close the Loop that I recall you were
9 very proud of, and had shown positive results when we
10 had our last rate case, how are those problems -- how
11 are those programs going? And have you created more
12 focus groups?

13 A. So the program is going very well. I --
14 we've met, I think, four times in 2019. We met again
15 here in the first part of 2020, and then we had an
16 informal kind of an update call more recently with the
17 focus group. It's been very well received from my
18 perspective on the feedback that I get. It's a small
19 group, 10 to 12. Now, remember, Bayleaf is made up of,
20 I think, 90-plus communities, so there's not one HOA.
21 So that's typical of a lot of our systems. Not all of
22 them have even an organized HOA.

23 So this has allowed us to kind of put our
24 finger on the pulse, which was the intent of this.

1 It's to be able to hear, understand our customers and
2 what they want and what they don't like, right? And
3 there's been some improvements. Our flushing notices
4 was overhauled. The actual notice, itself, was
5 overhauled. We redrafted it. We ran it by the focus
6 group. They told us what they wanted and what they
7 didn't like, why it was hard or easy. We modified that
8 and rolled that out. In fact, if you choose to sign up
9 as a text -- to get a text alert, it was very brief,
10 right, you could only fit so much characters -- so many
11 characters in the text. Well, we added a Bitly, which
12 allows us now, you know, during that text they can
13 click on the link that's in the text, and it takes you
14 to the bigger informative page of what's -- what
15 information is available about that leak or whatever
16 that notice happened to be.

17 One of the other things we did is we changed
18 the back end -- actually, we've done training with your
19 operators to make sure that we're providing updates.
20 So now customers can go in, and instead of just calling
21 customer service and saying, well, you're -- they say,
22 "We're out of water," and we say, "Yeah, we know."
23 "When's it going to be ready?" The old answer was,
24 well, all they knew is we had a main break or something

1 I like that. They couldn't really provide real good
2 information. Well, now we give estimated times and we
3 report that estimated time on our website. That
4 information is available to our customer service rep,
5 and then the customer can actually go on and see if
6 there's an issue in their area.

7 So there's been several improvements with the
8 focus group, and I believe the group, itself, or at
9 least one member of it, has issued commentary in this
10 case that I think is positive.

11 And the Close the Loop, as you mentioned,
12 that was a follow-up program that we installed. Every
13 customer who calls in with the lab -- with a water
14 quality issue that's determine to be secondary water
15 quality, there's lab D issue, that lab D, first it goes
16 to a new -- we formulated a new position to review all
17 lab Ds. When they come in, that person calls the
18 customer right away to find out what the problem is,
19 see if we can help maybe troubleshoot it before we
20 truck roll. And talk to the person, help them
21 understand what the problem is.

22 Then we issue the work order if we have to
23 send somebody out. The following week, which is the
24 Close the Loop Program, we have somebody else follow up

1 with each of those calls to find out if their issue was
2 resolved. You know, did the -- did you receive a call
3 from the technician after they resolved the issue,
4 which is one of the requirements we put in place.

5 So the programs that we've installed have
6 looked -- have worked, I think, very well, and you can
7 see that with the decline in the Lab D work orders
8 that's in witness Berger's testimony.

9 And the last thing you asked is have we done
10 any other focus groups. We haven't established any
11 formal focus groups. We used this as a starting point
12 to see how well it was received. Obviously, we need
13 to -- with 750 systems, it's a little bit challenging
14 to be able to find the time to be able to individually
15 communicate. You know, we do these in the evening.
16 It's usually about two or three -- they're about
17 two-hour-long meetings. And we'd like to target areas
18 where, you know, maybe there is that need. It's
19 something that we're open to, we just have not
20 initiated it with any other communities as of yet.

21 Q. So just to follow up on that, have you
22 thought about it? Or at least some graphical
23 representation across your territories, a way of making
24 all the customers feel they're getting that same level

1 of response, I guess, and access?

2 A. I don't have any plans right now to establish
3 any, but what I -- what I think would be beneficial, as
4 it was shown here, now, granted we have 6,000 customers
5 in North Raleigh, so it's a little easier to coordinate
6 that. I think maybe there could be some opportunities
7 in other areas, maybe even like Fayetteville.
8 Possibly -- there's some other areas, and I think that
9 would be something I'd be open to talking to with the
10 Commission and the Public Staff. Do we want to
11 establish some kind of opportunity or group regionally?
12 I'd like to have other input to determine where that
13 should be and who should be included in that.

14 Q. Seems like a good leadership piece there, you
15 know, you took -- you had a substantial amount of
16 complaints coming from that one area, and it seems like
17 you had positive results. And that goes to my next
18 question.

19 So what's the nature of the complaints? You
20 know, we're a little bit of a disadvantage. We have
21 not heard from our customers first, as we usually do.
22 And we'll be doing that really soon, and we might come
23 back and have follow-up for you. But what's the nature
24 of the complaints you've been receiving or have

1 received since the last rate case? And have they been
2 increasing or decreasing? And have the nature of the
3 complaints changed in any way? Any new items coming on
4 the horizon?

5 A. As far as the actual -- the volume has gone
6 down. So I -- quite honestly for me, the amount of
7 complaints that have been escalated and brought to my
8 attention have been much reduced. I just don't get the
9 level of water quality complaints that I did. And I
10 remember -- you know, in the last rate case, and I was
11 saying I can't wait for five to seven years. After we
12 get all this water quality program implemented, I'm
13 going to sit up here and the only complaint's going to
14 be about bills, right?

15 I just don't know what the volume of those
16 complaints are. The amount that has been escalated
17 have been very few. I think new topics that have come
18 up have been about things that we're hearing locally.
19 Not necessarily with just Aqua. You know, you've got
20 Gen-X, but we want our quality with PFAS and PFOA have
21 been kind of a hot topic. Lead and copper is always on
22 people's mind, although I don't hear a lot of
23 complaints. I think we have a very good program in
24 place to address that. And, you know, just the new

1 issues of PFOA and PFAS have probably been -- if I were
2 to say there's anything new, that would be it. But
3 again, no specific complaints about our water quality,
4 more maybe just general rumblings that I hear from the
5 people in the field, and possibly more of our workers.

6 Q. Have you had any issues or difficulties
7 around dealing with -- with our natural advanced
8 storms, hurricanes, any special complaints like
9 following flood events or special concerns the
10 Company's had to deal with?

11 A. No. Not in particular. I think we've done a
12 very good job of -- we have emergency management
13 planning. We use a NIMS process that our director of
14 operations, Joe Pearce, has installed. We've sent
15 training out to all of our area managers and
16 supervisors to make sure that we're handling that
17 correctly, and basically making sure we're prepared for
18 those storms. We've reacted extremely quick. We've
19 even helped out other communities where they've needed
20 assistance with generators and things like that.

21 Again, because our footprint being so large,
22 we've been able to mobilize equipment that's stored in
23 our western operation to help with our coastal as well
24 as not just equipment, but people. So we've been able

1 to respond very quickly to storms. Have not, from what
2 I can tell, created a big run. But now, there are some
3 people who are out of water for -- it might be one or
4 two days, and a lot of times, you know, we're trying to
5 get a generator in there. We may not have access to a
6 certain system because it's remote and the power is
7 out, right? And once that power goes out, it might
8 have a tank, but once the tank's drained, you know, we
9 can't refill it without the power.

10 So we'll get some issues around that. But
11 again, with 1,200 well sites and 750 systems, we don't
12 have back-up generators at all those sites. You know,
13 some of these wells are very. Or some of the systems
14 are even very small, so it's -- we just don't have that
15 coverage.

16 Q. Do you have good real time working
17 relationships with the -- with related power companies?

18 A. Yeah. We have a dedicated -- the resource
19 that's been identified for us from Duke. We work with
20 him very regularly when we have storm outages to let
21 them know we're a utility, we need some help here, we
22 need to get some access. Sometimes they just can't get
23 their personnel out there. I'm just kind of recalling
24 from various issues that we've had over the past few

1 storms over the past couple of years.

2 But we have a dedicated resource -- not
3 dedicated. A resource who has been identified for us
4 to contact when we have emergencies. And we use also
5 NC WARN. So we're members of NC WARN, so we work
6 closely with Raleigh and Johnston County. Anybody a
7 member -- a municipal's membership of NC WARN, we're
8 part to that. So we can receive benefits from them and
9 we also assist them as well.

10 The network that's available to us locally is
11 very strong. And then we've actually borrowed from
12 Aqua Virginia. We had -- I don't remember which storm
13 it was, Michael maybe. I want to say we had seven or
14 eight people from Aqua Virginia come down to
15 North Carolina and help us for two days. Stayed
16 overnight, stayed out at the coast. And it's really
17 good to be able to have the footprint that we have not,
18 just in one single area, that we can draw from to help
19 when we have these needs. And not just help our
20 customers, but we're helping other municipalities, small
21 municipalities that just don't have the resources.

22 Q. And this next question is just a little
23 add-on to what we've generally been discussing. But
24 with regard to customer complaints, do you have any --

1 or has anything changed about those that are
2 specifically about sort of operations or --

3 A. Yeah. And I probably --

4 Commissioner Brown-Bland, I probably should have
5 mentioned this when you asked me about the complaints
6 on the earlier question. The one complaint that would
7 stand out more about operations is irrigation. It's
8 irrigation related. It's -- there's certain systems
9 that just draw down -- you know, they're heavy
10 irrigators, and they draw down their well capacity and
11 tank capacity, and it creates outages and it creates
12 discolored water.

13 I would say that that has been still and
14 continues to be an issue in certain systems where
15 they're typically heavy irrigators in that July,
16 August, time frame. Or if we get into drought periods
17 where we're not replenishing well water in the water
18 table, that has become a challenge. Or it's a
19 continued challenge, but we are hearing from some
20 customers about that.

21 But about operations, I'll tell you, I
22 receive a lot of emails that come from our customer
23 service group where customers are just calling back.
24 And I love to see this. They're calling back and just

1 saying, "Hey, just wanted to do a shout-out for this
2 guy who came out. Not only did he just fix the issue,
3 he walked me through it, and explained why this has
4 happened. He told me how to find the leak," or
5 whatever it might have been. We pride ourselves on
6 being able to be part of the community, not just doing
7 our service. And I've been seeing a lot of positive
8 feedback from customers coming from our customer
9 service department about some of those positive impacts
10 our employees have had.

11 There are some driving issues that come up
12 once in a while. We have a 1-800, or I'm not sure what
13 the number is, but "how's my driving" thing. And every
14 once in a while we'll get somebody who may have merged
15 into the wrong lane at the wrong time. But those are
16 expected and very few.

17 Q. All right. Have there been -- have there
18 been changes in the flushing protocols, and have
19 customer complaints been related to that in any way as
20 a result of new protocols, if you had them? And by
21 that, I mean since our last rate case.

22 A. Yeah. Actually, since last rate case, most
23 of our complaints on the flushing were, you know, in
24 that Bayleaf area where maybe we didn't notice the

1 customers as they wanted to be or enough time to be
2 able to react, or they didn't know when we were going
3 to be where. Since we've initialed the focus group, we
4 have, as I mentioned, changed our flushing notification
5 processes. So we now have a schedule that's up on our
6 website that we tell everybody who they can go to to
7 find out when their estimated time is going to be
8 flushed. Flushing Bayleaf in particular takes, like,
9 three to four months, just because of all the streets
10 and the -- it's a pretty large area.

11 So in doing that, we identify the streets
12 that are going to be flushed during a certain week and
13 send out an advanced notice through our SwiftReach or
14 our Aqua alert notification system. And we put signs
15 out at the front and the back -- or the entrances of
16 the community, so people know when they're coming in,
17 we're going to be flushing this week. I would actually
18 say we've been receiving positive feedback. We also --
19 we've been using Nextdoor where possible. That's a
20 really tough platform to use where we can't pinpoint
21 real well. But with the Bayleaf focus group, we've
22 been coordinating some of our messaging with several
23 members who are part of that group, and they've been
24 taking our notifications and posting them for various

1 things.

2 So the communications have significantly
3 improved across the board. And then we had the
4 flushing plan. That was part of the 497 order that was
5 initiated. We developed it, Joe Pearce developed it,
6 our director of ops worked with the engineering team
7 over in Public Staff to come up with an approved
8 flushing plan. So that was also filed last year.

9 Q. So in going back over the previous questions
10 you answered about the focus group, these good things
11 that have come out of the Bayleaf focus group, are they
12 being extended, the actual results? Or what you may
13 learn from the focus group that works, doesn't work,
14 are those things being extended to the other customers?

15 A. Yes. The -- some of the changes that we've
16 worked with the focus group, so they're -- yes, they're
17 members of that Bayleaf area, but they're still
18 customers. And their customers are likely to have
19 similar challenges, maybe concerns or problems or
20 issues whether they're in Bayleaf or whether they're
21 in, you know, Denver or out in Hamstead.

22 So what we've been able to derive from them
23 and learn from them is the communication messaging,
24 some of the clarity, some of the availability. So when

1 we've taken and made some of the changes, like the one
2 I mentioned with adding the Bitly to the text, I mean,
3 how easy is that? But somebody in that focus group
4 mentioned it. So that's being applied and used across
5 the state.

6 Our flushing requirements using -- you know,
7 posting at the sites, that's something that we do
8 everywhere, not just in Bayleaf, although Bayleaf is
9 more complicated and it's a larger process. Most
10 systems we can do in a couple of days, Bayleaf is
11 massive.

12 The update of the communications of, like,
13 main breaks or when we get water outages, the
14 information that comes from the field to provide us
15 update that we post on the website, that came out of
16 that focus group, and that's being used everywhere
17 across the state. So it's not just that they're in
18 Bayleaf, they're actually representing the bigger
19 customer group, and we've had some very positive things
20 come out of that that we've been able to apply to the
21 whole state.

22 Q. All right. Mr. Becker, have you -- I know
23 that the issues in the case that have been about
24 consumption are about something much larger. So I'm

1 not -- this next question, I'm not suggesting that this
2 in any way really makes up that difference. But by the
3 same token, are you -- are you seeing any connection
4 between the consumption levels and the more the water
5 becomes aesthetically pleasing and better? In other
6 words, if people were refraining from using the water
7 because of the manganese and iron qualities, do you see
8 a relationship there to where there may be increased or
9 actually is already some increased consumption?

10 A. I have not, Commissioner, actually looked at
11 the consumption patterns for where we put filters in.
12 That's a good -- that's something I could look at and I
13 will look at now that you mention it. I haven't found
14 a connection that I've tried to make before, so I don't
15 have that information to actually answer the question.

16 Q. All right. Thank you. Now, with regard to
17 the State's current state of emergency and the
18 COVID-19, what is the situation that you've been able
19 to observe about your customers' ability to pay?

20 A. So we do the filing, the executive order, was
21 it 124, and then it was extended through 142. So the
22 required is now a monthly filing. And I have a copy of
23 it somewhere. But it's all filed with the Commission,
24 so I know you have it as well. But overall, the

1 amounts that are uncollectible have obviously
2 increased. We've had to advertise that. It's a --
3 we've advertised it several times, in fact, that we are
4 not shutting customers off during this period of time
5 as all regulated and nonregulated consumers are -- or
6 utilities are not doing.

7 And then we have the payment arrangement plan
8 that once this thing ends, you know, they'll have the
9 six-months payment arrangement. But the collections
10 and the disconnects -- the potential for disconnects
11 grows, right? There's more customers who are not
12 paying, so they would normally be disconnected after a
13 certain period of time after certain notice. That
14 group is growing.

15 The collection activity of the past due
16 amounts have grown comparatively probably about
17 50 percent year over year. So the amount past due this
18 year is about 50 percent higher than it was last year
19 at this time. But what I found very interesting, I was
20 just looking at this because the metrics, I think, were
21 just posted yesterday, possibly two days ago. The
22 number of customers who are delinquent is only up
23 4 percent. So I found that very interesting. The
24 dollars are up 50 percent. And I want to say it went

1 from \$600,000 on collectible last year to about
2 \$900,000 this year. Again, I'm trying to recall. It
3 may not be exactly accurate there. But the number of
4 customers only went up, I think, 4 and a half percent.

5 So last year if it was 4,000 customers, or
6 let's say last year was just 1,000 customers, it's
7 almost the same customers who haven't paid. It's just
8 there's more amount that's not being paid. So it's
9 almost the same level of customers who weren't paying
10 last year are not paying this year with a small
11 increase of about 4 percent of the customers. Which
12 doesn't match the 12 percent unemployment. But you're
13 saying that my customers in general -- I don't know
14 what we can really read into that or what kind of
15 analysis can be gleaned from that. I just noticed it.
16 I thought it was very interesting that only 4 percent
17 more of my customers are unable to pay.

18 Q. And you mentioned a moment ago about the six
19 months and the plan to catch up. Have you received any
20 feedback that tells you your customers do understand
21 that?

22 A. I have not received any feedback whatsoever
23 regarding the payment arrangements. They don't kick in
24 until after -- well, the Commission order, I think,

1 extends through the state of emergency. The Governor's
2 executive order ends, I think, July 29th. And I just
3 heard recently he's not going to extend it. He may not
4 extend it. I don't want to put words in his mouth.

5 The payment arrangement would not kick in
6 until after the order expires. So there's no
7 collections right now whatsoever. So nobody's really
8 been concerned about it is my guess, so I haven't
9 really heard anything about it from customers.

10 Q. And what can you tell us in regards to an
11 update on the tank cleaning? Has it been completed?

12 A. Yes. As part of the water quality plan, all
13 of our group 1 tanks, in addition to going through the
14 assessments to determine which ones needed filters,
15 were going to be cleaned. I believe we are 100 --
16 we've completed that effort 100 percent. So all the
17 group 1 tanks have been cleaned. They are done on a
18 rotational basis.

19 Q. And what's the anticipated cleaning plan; is
20 it every five years? Every ten years?

21 A. I don't think it's a standard. I think there
22 might be a couple tiers. It depends on the water
23 quality within that site. I don't know the exact
24 answer to that, Commissioner Brown-Blair. I do know

1 that, as tanks need to be cleaned, that we've cleaned.
2 We've tried to identify what the frequency would need
3 to be to make sure we stay on top of it. I don't know
4 if there is a standardized three, five, or ten years,
5 though.

6 Q. So you would anticipate some tanks might need
7 to be cleaned and may actually be cleaned more often
8 than others?

9 A. Absolutely. And part of the installation of
10 a new improved manganese dioxide filter where we have a
11 secondary water quality issue, or any new filtered
12 installation, we do tank cleaning as part of that
13 project. We don't want to have a new filter in there
14 back-feeding or washing dirty water that's coming from
15 sediment in the tank as we start it up.

16 Q. And are you able to determine if you've seen
17 improvements as a result of the tank? Can you
18 attribute improvement to the tank cleaning? The
19 changes in the tank cleaning?

20 A. You know, it's hard to say exactly which
21 things have led to the improvements. You know, the
22 water quality plan, the primary focus has always been,
23 okay, we need to put filters on there because the
24 concentrate -- the mineral concentrations are not

1 things we can just continue to flush through, right?
2 So it's an operational and capital plan. We're putting
3 filters in in the highest priority sites.

4 We have operational changes. We have the
5 flushing program, the tank cleaning program that we've
6 initiated. The sequestration -- the use of
7 sequestration, we installed -- it's a simple test, jar
8 testing to make sure that we're maximizing --
9 maximizing is the wrong word. Making the correct
10 dosage of sequestration to maximize the benefit of
11 sequestering iron and manganese from the water.

12 So there's been a lot of operational changes
13 as well as the capital. It's kind of a package deal
14 that I think has led to an improvement overall.
15 There's still some systems, right? We've been focusing
16 on the worst first, and now we're moving down into that
17 level, and we're now getting into other areas that we
18 have to focus on, and that's where our efforts are
19 going to be going next.

20 Q. All right. And earlier, the amount of
21 reporting that you've been doing and that the
22 Commission has ordered has been the subject of
23 conversation. And your counsel asked you shouldn't
24 that situation be a dynamic one. And we review and see

1 what's needed and see what's going to be useful. In
2 fact, the Commission order at least contemplated some
3 of that, did it not, in the sense that it provided that
4 if things were better, you could come back and seek to
5 have modifications?

6 A. It did, yeah. I think it said after one year
7 we could -- I don't remember what the wording was, but
8 we could actually come back and ask or request relief
9 from some of those reports or reporting.

10 Q. All right. And is -- after the 12 months had
11 passed, is this the first time that you've come back to
12 ask in this case?

13 A. Well, here we're generally talking about the
14 volume of reports and the types and maybe reworking
15 some of them so they're a little bit maybe more
16 informative and we can focus on the information that's
17 beneficial to you-all and the Public Staff. We have
18 asked, I think -- on the bimonthlies, we've requested
19 relief from several of the reporting of many of the
20 systems that have just shown improvements where we
21 haven't had water quality complaints.

22 And we've been -- we've reduced -- I don't
23 know what the exact number was, but we reduced it from
24 the teens, mid-teens maybe, the number of systems we

1 were reporting on to, you know, maybe a handful, less
2 than five. I'm not positive of the exact number, but
3 we have been asking to have certain systems removed,
4 and we have been able to remove those systems from that
5 reporting.

6 Q. You haven't or you have?

7 A. Have.

8 Q. All right. Thank you. And this is a
9 question that pertains somewhat to witness Thill's
10 testimony on the in-service date of plant and the
11 unitization process. In his rebuttal testimony on page
12 35, he mentions that communication between field staff
13 and their accounting staff is a key to timing when the
14 CWIP projects are closed. And he also notes
15 coordination is needed between the Company's internal
16 departments and external vendors. That's with respect
17 to payment of invoices.

18 Does the Company have or offer any proposed
19 changes or improvements to the communications processes
20 internally that would help speed things up and promote
21 more consistency in the unitization process going
22 forward?

23 A. Well, I think the process -- given the volume
24 of the projects and the number of systems that we have

1 throughout the state and what's unitized or capitalized
2 by our accounting group, you know, this is a -- it's
3 just not a cut-and-dry process. There's a lot of
4 management to it, which is why we have to have
5 understanding from operations and we have to be able to
6 coordinate the timing of invoice payments from all of
7 our vendors.

8 So can communications improve? I think we --
9 yes, they could. We've put several processes in place
10 to be able to get information from the field on a
11 timely basis. Does every person identify every member
12 that -- oh, this one should close here, maybe -- so we
13 miss a month? That's possible. The processes exist,
14 we just get into the fact that this is a very
15 complicated process with a lot of volume.

16 Our accounting team, I think, does it
17 extremely well, given that volume, and the size, and be
18 able to manage that. Many of these projects are
19 auto-unitized using some of the tools and functionality
20 in Power Plant. Power Plant is -- that's what we use
21 to track our assets and capitalize them, and it's used
22 by other utilities. So it's just another customized
23 system, but there's a cost benefit to being able to
24 record all of these assets at certain levels and at

1 certain volumes. And I think we do a very, very good
2 job of that.

3 If we improve that communications, maybe
4 enforced it a little bit more, or maybe created a
5 meeting, I think that maybe that might help. I don't
6 think there's any significant change that I see that is
7 necessary.

8 Q. Okay. And then I have a question about the
9 settlement agreement. The agreement between Aqua and
10 the Public Staff is the -- the question is, is the
11 \$3.233 million increase shown on the settlement
12 Exhibit 1, line 71, column F, is that the final
13 agreed-upon increase in revenue requirements except for
14 the final adjustment for the rate case expense?

15 A. I believe so. I know witness Henry and
16 witness Gearhart may be able to answer that. I don't
17 think anything else changes, other than the rate case
18 expense. But I couldn't 100 percent confirm that. I'm
19 pretty sure that that's the number outside of rate case
20 expense.

21 Q. And I ask, in part, because a few moments ago
22 when you were having a discussion with Ms. Sanford, it
23 sounded like you may have indicated the parties were
24 still working through a couple of financial issues that

1 are in the settlement agreement, or is that not -- did
2 we understand that incorrectly?

3 A. I don't recall what I said there, but I do
4 believe all of the financial items, other than rate
5 case expense, are settled.

6 Q. All right. Thank you.

7 COMMISSIONER BROWN-BLAND:

8 Commissioner Duffley?

9 EXAMINATION BY COMMISSIONER DUFFLEY:

10 Q. Mr. Becker, I just have one more question for
11 you, and you may not be able to answer it. I just,
12 kind of, wanted a general idea. In an answer to
13 Commissioner Clodfelter's question, you were talking
14 about if you kept a \$40 million capital spend over a
15 period of time, eventually depreciation would catch up.
16 And I was just wondering, what is that length of time,
17 generally?

18 A. I think you were right when you said I'm not
19 sure I'm going to be able to answer that. I would have
20 to actually look at that and analyze it. I do not know
21 if it's 5 years, or 2 years, or 10 years. I'm sorry, I
22 don't know that answer.

23 Q. Okay. Thank you. Would another witness know
24 the answer to that?

1 A. I think another witness would probably have
2 to calculate it, what it would take to ramp up to that.
3 I think there might be an easier answer, I just want to
4 make sure that it's fully vetted before I just say
5 that.

6 Q. Okay. Thank you.

7 A. Sure.

8 COMMISSIONER DUFFLEY: No further
9 questions.

10 COMMISSIONER BROWN-BLAND: All right. I
11 see you, Commissioner McKissick, but before that,
12 Commissioner Clodfelter, did you have -- at one
13 time we saw your hand up. You're good? All right.
14 Commissioner McKissick.

15 EXAMINATION BY COMMISSIONER MCKISSICK:

16 Q. Thank you, Mr. Becker. And, of course, this
17 touches upon an issue that Commissioner Brown-Bland
18 discussed just a few moments earlier, and that's about
19 these water quality reports.

20 Could you provide a greater level of
21 specificity, in terms of what it is that you feel is
22 unnneeded or unnecessary at this time, either in terms
23 of the content of the report, the frequency of the
24 report, or what modifications substantively might be

1 made that would address concerns which Aqua has at this
2 time?

3 A. So yes, thank you, Commissioner. The --
4 first, witness Berger, this is part of her testimony
5 where she'll talk in detail about the different
6 reporting and maybe some of her ideas -- actually, I
7 know there's a -- maybe there's a proposal in there to
8 reduce it to include -- incorporate certain things. So
9 one of the things is just the timing. You know, we do
10 the bimonthly, we do the -- and then the semi annual.

11 The bimonthly, we report on all systems where
12 a customer has testified in the past. Many of those
13 systems -- as Commissioner Brown-Bland asked, many of
14 those systems now have -- we requested be removed, so
15 we no longer report on them. So those are the ones.
16 But we have very reduced water quality complaints from
17 those systems, and we wait for a very long -- I say a
18 very long, but a lengthy period of time where there
19 aren't any complaints before we ask for release from
20 that.

21 I don't know the -- some of the information
22 is provided, the follow-up information might be
23 repetitive. I think we're not sure what the Commission
24 wants to see in there, if they want to see all of those

1 things. So a revisiting of the content of some of
2 these -- and I know I'm not giving you very specifics
3 of what to take out. It's more the timing and
4 refinement of what's in there. And maybe we could
5 consolidate it. The semi annual is done -- we report on
6 all systems that have had water quality complaints that
7 are the lesser of either 25 or 10 percent. Well, the
8 10 percent on a 15-customer system is basically one
9 customer, right? 1.5 customers. So if two customers
10 report, we're doing a full report on them. So that
11 10 percent on small systems doesn't exactly work real
12 well.

13 You know, a lot of times what we find is
14 there are main breaks. Or something that's not really
15 a water quality issue, it's something else that was
16 reported. We get some discolored water because we had
17 a main break or a pressure issue. It could be recorded
18 as a water quality issue, when we get out there, it's
19 we had to fix a leak or something like that.

20 So the low level of the table that's set for
21 that being 10 percent of the small system is
22 challenging. And that would help to have that maybe
23 elevated a little bit. And then going from semi annual,
24 maybe we could do an annual. But again, I think

1 witness Berger would be able to answer some of your
2 questions more direct. Some of that question more
3 direct.

4 Q. Thank you. And then a follow-up, and that's
5 simply this. I know there's been some discussion about
6 the unitization, and I hear you talk about using Power
7 Plant, but I see a lot of testimony here about how
8 classifications are referring to construction work in
9 progress, and in-service date, unitization date. I
10 mean, how is it that this can be? And When I go back
11 and read the testimony, this has been a concern where
12 we have been going for a period of time. This is not
13 something that's really new.

14 So, I mean, what can be substantively done to
15 improve the coordination and the timing of it so things
16 are actually put into service, classified under the
17 unitization, and appropriately depreciated in a way
18 that's consistent so there doesn't appear to be what --
19 appear to be a consistent pattern of doing it in a way
20 that would perhaps not be advantageous to ratepayers?

21 A. So, Commissioner McKissick, the -- you
22 mentioned that this has been a problem for quite some
23 time. I was a controller here in North Carolina in
24 2009 through 2011. This has not been a problem. It

1 has not -- it has never been identified to us as a
2 problem. It was in earlier orders where, you know, we
3 were advised to look at our processes and then report
4 on them. I think that's part of the testimony here.
5 But since then, we've worked with --

6 Q. I hate to interrupt you, but didn't that go
7 back to 2008 when that was discussed.

8 A. I believe so.

9 Q. Yeah. That's why I say it's more than a
10 decade.

11 A. Right. So since then -- I'm sorry, I didn't
12 mean to cut you off.

13 Q. Yeah.

14 A. So since that time --

15 Q. Go right ahead, sir.

16 A. Since that time, you know, we have installed
17 processes, you know, use that 30 to 60-day general
18 window to be able to capture the cost and understand
19 from operations if the project has been complete.
20 Until recently, and since those reports have been done,
21 we have not had any -- we have not had any complaints
22 from the Public Staff or anybody else that said we're
23 not tracking this correctly.

24 You know, this is an accounting process.

1 It's a detailed accounting mechanism using, you know, a
2 software that's set up for a very large organization to
3 handle very large volume. And, you know, what we've
4 been seeing in testimony earlier today from
5 Mr. Grantmyre, you heard me kept saying, of those
6 projects in that list, yes. Well, when you look at --
7 we were talking talk about WSIC/SSIC only. You know,
8 there's blanket projects, \$10 million a year that don't
9 show up in that detail. Those are unitized the monthly
10 invoice is received automated. It's hundreds if not
11 thousands of invoices that come in. They're unitized
12 in the month that they come in.

13 If we started breaking them down and looking
14 at categories and classifications like WSIC/SSIC, well,
15 yes, I do plan all of my projects to minimize lag, as I
16 said before. So is it odd that those are being
17 unitized in the last one or two months before the
18 filing? No. You know, when you saw the dates in
19 September, well, there's no -- there's no advantage or
20 disadvantage to unitizing an asset in April, May, June,
21 and July, but we still -- you'll notice the timing is
22 still in August or September, mostly in that September.
23 So it's consistent that we're trying to reduce our lag.

24 And then we have a lot of other large

1 projects. I think we manage about 150 to 200 specific
2 engineering projects annually, right? Those are
3 larger, longer time periods. We could run into
4 construction delays. There might be rework on a filter
5 that was installed. I know at Coachmans, in fact,
6 that's been a topic for several rate cases. You know,
7 that's a very large filter that was installed out
8 there. It was the first of that size to be done here.
9 Well, there's improvement period, and some of those
10 things that happen after the fact that need to refine
11 the process, we may be using a wastewater plant or a
12 treatment basin, but we're still tweaking the
13 technology around it. And as we're tweaking it, that
14 costs money. So one of the things that we've been
15 operating under -- and I know that this came from me
16 when I was a controller in 2009 talking with
17 Cathy Fernald, it was hammered into me when I first
18 started that we are not to close an asset twice. We
19 are not to close a project twice.

20 So we would wait for all the costs. We have
21 to know the costs to unitize it. We could estimate
22 those costs, but then you're going to have a -- you
23 know, you got a gap, you got a true-up, and it's -- we
24 got to talk about efficiency. And we operate and run

1 our accounting system and capitalize our assets
2 according to the universal system of accounts. You
3 know, the recommendations there. And we adhere to it.
4 And I think we do a very, very good job with the volume
5 that we have to record it in a correct time period.

6 One of the other things that we do here in
7 North Carolina that I don't -- I think it's in witness
8 Thill's testimony, we have to record to the system
9 level. Which is maybe not a big deal, you might want
10 that information, but we're on consolidated rates. The
11 system level -- I'm not sure what the benefit is unless
12 we sold that system, but if you're recorded at the
13 system level, that's -- remember, I have half of all
14 the systems in all of Aqua.

15 It's 750 systems. So I'm recording each of
16 those assets, and I have to have work orders, and
17 there's a whole back-end process that has to be set up
18 to be able to do that. Each system, for example, has
19 30 what we call blanket work orders, and they're
20 normal, common things that we would expect could happen
21 throughout the year. You know, a main break, service
22 repair. There's 30 of these or 35, I don't know the
23 exact number, of these standard types of work orders.
24 In order to facilitate processing those in a timely

1 basis, and those are the ones that are closed in the
2 same month that the invoice comes in at, we have to
3 have 30 set up for 750 systems.

4 What is that, 25,000 work orders? Those
5 25,000 work orders, now when our guys are out in the
6 field and they're doing that work, they have to call
7 their time. They have to find out -- of the 25,000
8 work orders, where am I recording network time today?
9 It's a very, very massive deal. And we've taken a lot
10 of information from the past and guidance from the
11 past, developed this process. And quite honestly,
12 until recently, this has not come up as an issue.

13 Q. Okay.

14 A. Other than, you know, we were given the
15 guidance back in 2008, I think you said. We overhauled
16 it. We had somebody come in and study the processes.
17 We made the amendments. We were working Cathy Fernald
18 at the time who was the -- that was Williams'
19 predecessor. And we never had any challenges or issues
20 with this process.

21 Q. And let me ask this. Do you see any
22 opportunity, in terms of room for improvement,
23 enhancements that might be made systematically that
24 would address the concerns which I see have been raised

1 by the Public Staff? I mean, I'm just trying to see --
2 I appreciate you giving that overview of the
3 complexities that are involved with this, but I think
4 with your skill sets as a, you know, prior controller
5 perhaps particularly, you perhaps might have greater
6 insight into what could be done to make systematic
7 improvements to address concerns that have been
8 articulated. So is there anything that comes to your
9 mind, or do you feel things are working relatively
10 seamlessly with few exceptions?

11 A. Yes. I do think there's always improvements,
12 and that's what I love about my job. There's always
13 something I can do better, right? So -- and that's an
14 area where I think we do it very well. Can we improve
15 if we dig in there and find out maybe we could do this
16 a little better? Absolutely, there's some
17 opportunities, possibly. I don't know what they
18 exactly are right now. I will tell you, when I first
19 came in here in 2016, one of my frustrations was our
20 supervisors were bogged down with all of the 25,000
21 work orders. And I'm using that number loosely.
22 Because their employees, our field operators, would
23 call them to find out what work order to charge because
24 they were in this system to do this type of work.

1 So they spent a lot of time of their day just
2 giving that information, which is extremely
3 inefficient. I discovered a way to try to -- just
4 because of my background, I was trying to work with two
5 different systems, a Lawson system and our Power Plant
6 system to try to be able to still capture the data by
7 system, which is required I think in a prior order by
8 the North Carolina Utilities Commission. And we went
9 through exhaustive efforts to try to make it work, and
10 the fields that we thought we could link up to to
11 create this efficiency don't work. And I hit a dead
12 end on that one.

13 I will say that, you know, coming forward, we
14 are looking at a more of a unifying application in the
15 coming years with possibly going toward SAP or
16 something like that. And we might be able to revisit
17 this and really refine our processes. That might
18 address everybody's problems.

19 Q. Okay. And last question, and it's here
20 completely. But there was discussion earlier about the
21 ARM meters. And I'm trying to understand when you
22 anticipate Aqua North Carolina is going to have them
23 fully operational to optimize their capacity to
24 function as well as they can, in terms of two-way

1 communication, so that is in fact -- so that consumers
2 do, in fact, have access to the data that might be
3 helpful to them in monitoring use. Perhaps detecting,
4 you know, leaks or -- you know, all of the capacity
5 that it has to offer.

6 A. Sure.

7 Q. It wasn't clear to me when that is
8 envisioned, so if you could help me with that.

9 A. Give me one moment. I want to get one piece
10 of information back here that I could provide. So as
11 of this year -- by the end of this year we will have
12 56 percent saturation rate based on our aged meter
13 change-out program. So one of the things that we're
14 doing is we don't want to just go change all of our
15 manual meters. Some of those manual meters may be two,
16 three, four, five, years old or. You know, they
17 haven't reached their end life.

18 So what we're doing is, part of our aged
19 meter program, we look at the average aged life -- age
20 of a meter in each system. And when that age
21 reaches, I think it's 17 years, then we'll go in and
22 replace those meters. So today, or again in '20, we
23 have 56 percent saturation of AMR versus manual. It
24 looks like, in 2025, we will be at 95 percent

1 saturation. So it's like we go up about 5 percent
2 every year. This is our current capital plan, subject
3 to change. But by 2025 we should be at full
4 saturation.

5 You asked another question about okay, when
6 are we going to be using all these functions. Many of
7 the functions are being utilized where we have already
8 rolled out the meters in those systems. When we do an
9 RF exchange, we do the whole system, so we could take
10 advantage of going in and reading the meters in that
11 system, all RF. And that basically involves a guy or a
12 gal going down the road, you know, with their guns --
13 not real guns, they're meter-reading guns -- and they
14 pick up all the RF signals, right? It accumulates all
15 that information. In fact, I think the Public Staff
16 went out on a run when we were looking at this a couple
17 years ago in our Fayetteville office.

18 So all of those meter reads come in. And as
19 well as those meter reads, you get leak codes, or other
20 codes, tampering codes. So what we're doing is we
21 developed a door tag. This is a brand new door tag
22 that we just had developed in the last six months.
23 It's a -- it tells people, "Today the following was
24 detected. Possible leak in property between meter and

1 house."

2 So our meters that are being read RF
3 100 percent in those systems, we're taking those
4 reports, we're going in after the fact, identifying
5 where a leak code came up, and there's some -- I don't
6 know how they determine that, but it's something about
7 a continuous run time over, you know, a certain period
8 of time. We get the report of who has leaks, and then
9 we go back, throw out one of these door tags, and leave
10 it on the customer's home.

11 Tamper codes, we identify where we think
12 somebody might have tampered with it, or if there's
13 theft, we can go back and look at those things and
14 provide that information. Again, we're only able to
15 provide that information for the customers that have
16 AMR today.

17 As also mentioned previously, the 40-day --
18 these AMR meters, we collect 40 days of usage. So
19 that's all collected, we get the 40-day history, and
20 then we load it into our system. That, although not
21 available for a customer to go in and get
22 independently, if they call us and there's a problem
23 or, you know, a dispute, we can go and pull that
24 information. And as you heard me say earlier, we're

1 actually right in the midst of training our CSRs to be
2 able to provide that. We could call in much more
3 easily. So you don't have to wait to pull a report and
4 have it manipulated to understand exactly what is it
5 saying. It will be more readily available.

6 To answer your question when is this -- when
7 are all the functions going to be available. So by
8 2025, most of my customers will have AMR. So those
9 things I just talked about are available and will be
10 available for those folks. The platform that has to be
11 developed to either include like a billing track usage,
12 like sometimes you get the 12 months of usage by month,
13 and those are great charts, right? We've been talking
14 about that as an option, or maybe even having people go
15 into their account and having it available so they can
16 go in and look it up.

17 I don't know what the timing of that is.
18 When I referred to the project that was being -- the IT
19 project that was being discussed this year, that's what
20 they're going to be talking about is what do we want to
21 see, and how do we want to see it, and when can we
22 complete it. So I don't know the answers to when they
23 can complete it. This will be a platform available for
24 all the other states. I don't know the timing of when

1 all the other states are going to be ready to go, or
2 when the IT platform will be established, I just don't
3 know that answer.

4 Q. Thank you, sir. I don't have any other
5 questions.

6 A. Thank you.

7 COMMISSIONER BROWN-BLAND: All right.
8 Does that cover all the Commission's questions?
9 All right. We're going to take a break. Come back
10 on the record at 3:05. Please mute and turn your
11 cameras off. When we come back, it's Commission --
12 questions on Commission's questions.

13 (At this time, a recess was taken from
14 2:51 p.m. to 3:05 p.m.)

15 COMMISSIONER BROWN-BLAND: All right.
16 Let's come back on the record.

17 And are there questions on Commission's
18 questions? Mr. Grantmyre?

19 MR. GRANTMYRE: The Public Staff has
20 questions.

21 COMMISSIONER BROWN-BLAND: All right.

22 MS. FORCE: Mr. Grantmyre, this is
23 Margaret Force. If you'd like me to go first, I
24 have a quick question. I'll go after you if you'd

1 rather.

2 MR. GRANTMYRE: Normally the AG goes
3 before the Public Staff.

4 COMMISSIONER BROWN-BLAND: That's the
5 normal situation. And, Ms. Force --

6 MS. FORCE: Can you see me okay? I'm
7 confused by these boxes. Yeah, you can see me.

8 RE CROSS EXAMINATION BY MS. FORCE:

9 Q. Mr. Becker, I just have a question about the
10 first exhibit that you were talking about. I'm having
11 trouble seeing you. And I'm sorry, I'm not looking at
12 the camera, I'm looking at you. So if I go back and
13 forth, that's how come.

14 The exhibit that you talked to Commissioner
15 Clodfelter about at the beginning, I'm not going to ask
16 any specifics about it. I don't have it in front of me
17 either --

18 COMMISSIONER BROWN-BLAND: Ms. Force?

19 MS. FORCE: Yes.

20 COMMISSIONER BROWN-BLAND: It actually
21 does better when you look the other way from where
22 you're looking.

23 MS. FORCE: Okay.

24 Q. I'll just read my question, then. As I

1 recall -- I don't have the exhibit in front of me, but
2 as I recall, there were some numbers on the exhibits
3 that were put together by Aqua. And I just wanted to
4 clarify.

5 Were those numbers that had been audited --
6 for instance, when I look at some of the exhibits in
7 the case, I was looking at Public Staff witness Henry's
8 exhibit, and he had done an investigation of the
9 numbers that Aqua submitted in its original
10 application.

11 I just want to clarify. When this exhibit
12 was put together, was there any auditing or
13 investigation done by the Public Staff about the actual
14 amount of revenues that the Company has had and the
15 return compared to the authorized return? Was that
16 audited or was that all representations of Aqua? Do
17 you follow me?

18 COMMISSIONER BROWN-BLAND: Mr. Becker,
19 you're on mute.

20 THE WITNESS: Good afternoon, Ms. Force.
21 Sorry about that, Commissioner. I have a
22 clarifying question. You mentioned the exhibit.
23 I'm not exactly sure which exhibit. Is it the ROE
24 exhibit with the graph; is that the one you're

1 referring to?

2 Q. I could be wrong, but I recall that there was
3 an exhibit that was a late-filed exhibit, that was
4 confidential, and that included information about
5 returns in other states.

6 A. Okay. So you're talking about the
7 confidential exhibit. And your question is, is anybody
8 audited -- or your question was --

9 (WebEx sound failure.)

10 Q. Right. And just to clarify --

11 (Reporter interruption due to WebEx
12 sound failure.)

13 COMMISSIONER BROWN-BLAND: Right. I
14 think between Mr. Becker and Ms. Force, that each
15 one of you need to mute as soon as you finish
16 speaking.

17 Q. Would you like me to clarify, Mr. Becker, or
18 are you good?

19 A. If you could clarify. I think you asked did
20 the Public Staff audit that or review that before it
21 was filed; is that your question?

22 Q. That's right. I realized that you had put
23 together information that you believed to be correct
24 just as you did in your application. But I'm

1 wondering, were the numbers investigated by the Public
2 Staff?

3 A. They were not investigated by the Public
4 Staff. That schedule was pulled together by our
5 corporate accounting group.

6 Q. And am I right that that was pulled together
7 quite quickly, perhaps over the 4th of July weekend, or
8 sometime since then?

9 A. I believe we got the request mid-last week
10 maybe, and -- or early last week, and it was pulled
11 together over the weekend and, I think, filed
12 yesterday, two days ago.

13 Q. And just to point out, you would agree with
14 me, wouldn't you, that Public Staff's view of the
15 present rates for the Company is quite different -- the
16 present net operating revenues for Aqua presented in
17 Mr. Henry's analysis is the summary exhibit that he
18 prepared. And I refer to Henry Exhibit 1, Schedule 3A,
19 page -- well, 3A. But that summary shows that the
20 Public Staff's analysis of the present revenues are
21 quite different than what was originally submitted in
22 the application for Aqua?

23 A. I'm sorry. If I could ask you to repeat the
24 question. I'm not sure if I'm understanding you.

1 Q. Sure.

2 COMMISSIONER BROWN-BLAND: Mr. Becker,
3 go on mute, please.

4 Q. Just to clarify. The -- when the Public
5 Staff investigated -- I'm sorry. When the Public Staff
6 investigated the numbers that appeared -- that were
7 submitted by the Company about what its present
8 operating revenues and expenses are, their analysis was
9 somewhat different than what Aqua's was; is that right?

10 A. This number here that's loaded is our actual
11 trailing 12-month as of the date of this filing. The
12 application revenues and our incremental request are --
13 those have been disputed. Our initial request was like
14 6.7 million. I'm not sure if that's what you're
15 referring to. That's the incremental amount. But
16 there's going to be different numbers in the
17 application versus where we ended up settling, where
18 this is our actual trailing 12 months as recorded on
19 the books in each of our subsidiaries' books.

20 Q. Well, I would agree with you. But as I
21 understand it also, when the test-year information is
22 put in before the adjustments are made for one increase
23 might be appropriate, just looking at present rates,
24 the numbers still don't line up when the Public Staff

1 looks at them, and that's when the Company would
2 submit; would you agree with me?

3 A. I'm not -- I apologize, I'm just confused.
4 I'm not sure -- are you referring to the schedule that
5 Mr. Grantmyre was reviewing earlier where he needed
6 a -- he added two and a half months of revenue to his
7 numbers to get to a different ROE? I'm sorry, I'm
8 trying to clarify to understand the question.

9 Q. No. I'll I tell you what. I'll refer you --
10 and you don't need to look it up, but as I understand
11 the exhibit that the Public Staff submitted as an
12 accounting summary, before they made adjustments as to
13 reflect the adjustments the Company was requesting,
14 they showed where present rates are in the test year,
15 and their numbers didn't line up with the numbers that
16 the Company had, as is often the case. Am I mistaken
17 in that?

18 A. I guess I'm trying to find the connection --
19 I think I understand what you're saying is that's the
20 billing design schedules that were resubmitted
21 yesterday by witness Henry and Junis. But I'm trying
22 to understand the connection to this -- the
23 confidential filed information which comes from our
24 actual books for each of our subsidiaries. So --

1 Q. Well, let me go back to my original question,
2 then, and I'll ask about them. The confidential
3 exhibit that was filed was filed by a company that has
4 not been investigated or audited; am I correct?

5 A. That is correct. Those come from the actual
6 books and from corporate, and it was not reviewed by
7 the Public Staff in advance.

8 Q. Thank you. I don't have any other questions.

9 COMMISSIONER BROWN-BLAND: Thank you.
10 Mr. Grantmyre?

11 MR. GRANTMYRE: Yes.

12 RECROSS EXAMINATION BY MR. GRANTMYRE:

13 Q. This is asking in response to questions asked
14 by Commissioner McKissick and Commissioner Brown-Bland
15 regarding unitization and in-service dates.

16 You stated that Public Staff has only brought
17 this to your attention recently. Isn't it true that it
18 was approximately two years ago during the -- sorry --
19 two years ago during the WSIC/SSIC review that the
20 Public Staff found this practice of reporting the
21 in-service date months after the actual in-service, and
22 they alerted the Company of it?

23 A. First, I would like to respond and say it's
24 not a practice. But I do believe the first time this

1 was brought up was for the March 2019 WSIC/SSIC filing
2 where there were several assets in there that were
3 identified to be unitized or capitalized later. And we
4 agreed and made the adjustments in that filing. I
5 think that's what you're referring to was when it was
6 brought up. And that was the first time that there had
7 been any issue that I was aware of. But yes, that
8 would have been, I think, the March 2019 filing.

9 Q. But you're aware that Public Staff's
10 testimony is that you did not correct it on your books,
11 and in this filing you still have the wrong date?

12 A. Well, on our books, we cannot -- it's not
13 easy to go back -- and I say easy. I don't know how
14 you would do it. You can't go back and just open up
15 financials from a prior year and make that correction.
16 So that is true, we did not make that correction. If I
17 recall -- we did not make that correction.

18 Q. You then would agree that your books are
19 wrong on those items that the Public Staff found as to
20 the March 2019 WSIC?

21 A. I would agree that our books are incorrect
22 with that component, yes.

23 Q. And the fact that they are incorrect are to
24 the Company's benefit because you have less accumulated

1 depreciation?

2 A. I don't know if that's to the Company's
3 benefit.

4 Q. Having less depreciation -- accumulated
5 depreciation is to the Company's benefit; it increases
6 your rate base, doesn't it?

7 A. It does increase our rate base.

8 Q. Now, again, if, in fact, a project goes in
9 service in October but is not unitized on the Company's
10 books until the following March, you would agree that
11 that lowers the accumulated depreciation?

12 A. I would agree that that lowers the
13 accumulated depreciation, yes.

14 Q. And this was a question of Commissioner
15 Brown-Bland where we talk about communications
16 improving the process. And we were talking about
17 communications with the field, and you made a
18 statement, "Well, it's not cut and dry."

19 Isn't it cut and dry when an asset goes in
20 service if you fill a tank with water, a new tank, and
21 all of a sudden it's in service and serving customers
22 on a date certain that water comes in the tank, stays
23 in the tank, and then goes out to the customer? That's
24 a certain absolute date, isn't it?

1 A. Not necessarily. You have to have it
2 approved, reviewed. There might be some additional
3 work that's done on that tank afterwards as part of
4 that asset that you have to wait for the cost to come
5 in. The invoices, doing it for the work of that
6 gentleman, or the lady, or the vendor who's working on
7 that asset, they have to go back and bill us for the
8 system. So that's -- it's not cut and dry. There's
9 operational improvements and changes that might need to
10 be made, and we have to wait for all the cost
11 information to be available, including payroll
12 information. Most of that is typically available
13 within 30 to 60 days.

14 Q. Well, aren't you talking about accounting
15 functions afterwards, but the tank date is in service
16 serving customers is a date certain? Water comes out
17 of a tank and goes and serves customers, that's a date
18 certain?

19 A. The day it's serving the customers is the day
20 it's serving the customers. That is a date certain,
21 yes.

22 Q. And you said that, in around 2009, you worked
23 this out with Cathy Fernald, some type of system. You
24 realize Public Staff asked in a data request -- and

1 Mr. Thill will deal with it tomorrow -- as to exactly
2 who in the Public Staff supposedly told you this, and
3 we got no answer as to who it was. As of today, it's
4 Cathy Fernald?

5 A. So I don't think I said in 2009 is when we
6 got our answer, but since I was here in 2009, I know I
7 was working closely with Cathy Fernald in our rate
8 cases that we were issuing. And the understanding has
9 been, since that point in time when I was here -- this
10 is just my experience. I don't have a note that tells
11 you or that was written from her. But we were always
12 under the guise or the recommendation that we should
13 not be unitizing an asset twice. That we need to wait
14 for all the costs to come in.

15 We cannot -- and I know Tammy Bernard who has
16 been our utility plan accountant for 20 years, she runs
17 with that mantra, that we've always been told by Cathy
18 that you cannot close an asset twice. So that means we
19 were waiting for operations to tell us -- this is why
20 it's not cut and dry. Operations would have to tell us
21 when they're wrapped up and completed with all of their
22 work, testing, certifications. And then we have to
23 wait for all the costs to in, again, because we cannot
24 capitalize an estimated cost. And sometimes vendors,

1 even though you want them to send their invoices within
2 30 days, that doesn't always happen.

3 Q. What you're testifying to is, under your
4 system, there's no way to make a correction to plant
5 entries once you get into your computer?

6 A. I'm not testifying that we can't. But for
7 reporting purposes, it's just not a simple process to
8 open our prior year's files to record. And I think
9 that -- I don't know the exact amount, but I want to
10 say it was like \$4,000, that change that you were
11 talking about, to record additional accumulative
12 depreciation. Again, that might be off a little bit.

13 But to open up the prior year's reporting
14 structure -- you know, we're publicly traded, so
15 there's a big process to be able to close out a year.
16 And my point is, it's a very technical process, it's an
17 accounting process that's been vetted and reviewed by
18 consultants when we actually had the order 2008 and
19 follow-up reporting. So it's a very deep process that
20 we need to understand what our system can and cannot do
21 if we were to even make any changes.

22 Q. But isn't this system very advantageous to
23 you that -- to eliminate accumulated depreciation?

24 A. The system provides efficiencies to handle a

1 very large volume of assets and capitalization. We
2 were focusing on management by deterior (phonetic
3 spelling).

4 Q. You're saying there's no way to modify your
5 system that you can go back and put the correct
6 depreciation, correct in-service date?

7 A. I'm not saying you can't. I don't know if
8 you can. I'm not familiar with the inner workings of
9 Power Plant to determine if you can do that or not.

10 Q. You also talked about irrigation. One of the
11 commissioners asked you about does irrigation affect
12 water supply, the customer complaints.

13 And has Aqua been following the Commission's
14 orders to notify the customers when there are drought
15 restrictions or reduced watering restrictions based on
16 the statewide drought map?

17 A. To the best of my information, yes, we do
18 have information on our Aqua America website that
19 indicates where the drought maps are located. The
20 drought maps are updated on a weekly basis. So we
21 can't proactively share that with each of the regions
22 and customers because there are 51 counties, right, and
23 they change depending on where you are.

24 But then when we do have issues with specific

1 systems, we do send out Aqua alerts, or emergency
2 alerts indicating that there are issues with the level
3 of demand. And we ask people to restrict their usage
4 and follow the drought map.

5 Q. Now, Commissioner Clodfelter asked you
6 several questions about the highly confidential filing
7 that you made at the Commission's request; do you
8 remember those?

9 A. I do.

10 Q. Now, isn't it true that -- I'm not going to
11 get into any confidential information, I will be just
12 very general here. I don't want any specifics.

13 But isn't it true that much of the operations
14 in Texas is not even regulated by the Commission?

15 A. If that's true, I'm not aware of it. I
16 didn't -- I didn't think that was true.

17 Q. Because you don't have -- okay.

18 Now, preparing this, Aqua had no gains on
19 sale within the 12 months ending March 20th; is that
20 correct, selling the system?

21 A. That's correct.

22 Q. To a municipality or whomever?

23 A. No.

24 Q. Do you know for a fact whether there were any

1 sales of any systems on any of these states through
2 municipalities during this 12-month period? You don't
3 have to get specific, but are you -- can you tell us
4 that there were not any gains on sale included in these
5 numbers?

6 A. I do not know that answer.

7 Q. And do you know whether or not which states
8 had some contract ops -- contract operations that are
9 not regulated by the respective utilities commission?
10 Isn't it true some of these states had some contract
11 ops?

12 A. There may be some contract ops within some
13 individual states or a few individual states, but Aqua,
14 in general, shies away from contract operations in
15 general. So if there are any, it's usually a small --
16 a small component.

17 Q. Now, isn't it true that Aqua North Carolina
18 has almost no contract ops, just very, very minor
19 amount?

20 A. That's correct.

21 Q. Okay. And this is a very good chart that
22 Commissioner Clodfelter requested, but don't you think
23 it would be beneficial if you added a column to it, or
24 the Commission requested you to add a column to it

1 showing what the 2019 capital expenditures in each
2 state -- each of these states were so we'd have an idea
3 of capital spending?

4 A. I defer to the Commission to answer that
5 question of what they wanted out of this request. I do
6 not know.

7 Q. That would help compare, would it not, your
8 capital spending versus these other states?

9 A. Sure it would. But you also have rate base
10 in there, I mean, which doesn't tell you the capital
11 spend, but it tells you the value of the --

12 Q. That capital spending could have been years
13 and years ago.

14 A. I agree.

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

16 COMMISSIONER BROWN-BLAND: Ms. Sanford.

17 MS. SANFORD: Thank you.

18 FURTHER REDIRECT EXAMINATION BY MS. SANFORD:

19 Q. Mr. Becker, I have just a few questions. I
20 know it's been a long day for you. And I want to go
21 back to Commissioner Clodfelter's line of questioning
22 about what's different in North Carolina, you know,
23 with respect to this ability to earn comparison with
24 other states.

1 You listed some factors -- well, I think his
2 questions were about what is different and also what do
3 you think is significant, in terms of the impediments
4 to the ability to earn in North Carolina. I am poorly
5 rephrasing him, and his question better speaks for
6 itself than my recast of it. But I think you mentioned
7 a few items. And if you didn't, I want you to let me
8 know that. I think you mentioned insurance cost, lag
9 built into the -- I tell you what, let me ask this
10 another way. It will be quicker and better.

11 If you had three -- if you picked the three
12 top factors that you think were -- are barriers or
13 restrictions on your ability to earn your authorized
14 return in North Carolina, what would they be?

15 A. Well, number one would be capital lag, I
16 think that's kind of first and foremost. It's seen
17 throughout my testimony and my direct testimony. The
18 capital lag. In coordination with the increased
19 capital spending to replace and repair, although the
20 CIAC replacement. So the level of capital spending,
21 capital lag are significant.

22 And then I'd say, you know, in comparison to
23 other states, the incorporation of the utilization of a
24 WSIC/SSIC mechanism. I think there might be some more

1 progressive ways to use that that would help us reduce
2 lag that they have that maybe we don't.

3 Q. Because some of these other states have what
4 I'll call system improvement charges, right, which we
5 know is a WSIC or a SSIC?

6 A. Yeah. Most of the other states have a
7 WSIC/SSIC, or a DSIC they call it, in some way. And
8 then future test year, I guess, is another that would
9 be -- you asked me for a top three. So what I
10 actually -- let me kind of clean that slate.

11 Future test year, WSIC/SSIC -- you know,
12 utilization of WSIC/SSIC, and then capital lag earning
13 issues.

14 Q. And I think you discuss the fact that there
15 has been conversation about an expansion of the
16 WSIC/SSIC, right? I mean, that's kind of an ongoing
17 conversation with Aqua, right?

18 A. That's correct. We were working with, in
19 fact, Public Staff and the legislature to draft an
20 expansion of eligible items under the WSIC/SSIC. We
21 just haven't been able to move forward on that yet.

22 Q. Let me ask you about another item, in terms
23 of whether it is a restriction on your ability to earn
24 that authorize as we talked about.

1 Would factors such as certain rate design
2 proposals put your revenues at risk, thereby negatively
3 affecting your ability to achieve your allowed ROE?

4 A. Sure. Our current rate design is about 40/60
5 fixed versus variable or VFC versus volumetric. But
6 the more volumetric, the more variable -- the larger
7 the variable component, especially during a time of
8 declining consumption, puts our revenues at a much
9 greater risk, especially if we were to incorporate what
10 the Public Staff is recommending as their proposed
11 volumetric mix, which is 30/70. So it's another
12 10 percent added to the fixed component. I'm sorry,
13 taken away from the fixed component and put into
14 volumetric.

15 And then for our sewer, they're suggesting
16 60/60. That would add, I would think, substantial risk
17 to us being able to earn our revenues that allows us to
18 come near a reasonable opportunity to approach our
19 authorized ROE.

20 Q. Okay. Now let's move to some of
21 Commissioner McKissick's questions. As you were
22 discussing utilization issues with him, and as you were
23 having conversation about the duration of the period of
24 time that this has been an issue,

1 Commi ssi oner McKi ssi ck asked you -- again, hi s words
2 better than mi ne -- basi cally if you see a path
3 forward, or what do you see as a soluti on, or something
4 to that effect, I thi nk. And you had a lot of
5 conversati on about the i ssue and the problem, and I'm
6 not asking you to revisi t that, or about Aqua's views
7 of i t.

8 But to hi s questi on, speci fi cally about what
9 do you see as a path forward for resoluti on of thi s
10 i ssue about which you and the Publi c Staff are i n
11 di spute?

12 A. So i n my response to Commi ssi oner McKi ssi ck,
13 you know, again, I thi nk we're doi ng everything that we
14 shoul d be doi ng. There's al ways room for i mprovement
15 i n the -- I believe i t's i n wi tness Juni s and Henry's
16 joint testi mony. There's a recommendati on i n there to
17 file a report -- for Aqua to file a report on i ts
18 processes, I thi nk wi thi n 90 days. I woul d agree that
19 we coul d take a concerted effort to look at what our
20 processes are and file a report on our processes as
21 they recommend.

22 Q. Do you thi nk that woul d be a step forward i n
23 thi s i nqui ry and sort of exami nati on of posi ti ons?

24 A. I do. I t's benefi ci al, ri ght? Again, I like

1 we said, there's always opportunity to improve
2 something. Maybe we'll learn something out of it. And
3 I think putting it into that kind of report will open
4 up some dialogue and will address everybody's concerns.
5 Or at least understand what the cost is going to be to
6 incorporate some of the new processes or controls that
7 need to be installed to address those concerns. And
8 then we can make a decision as to whether or not those
9 controls as additional controls are worth that
10 investment.

11 Q. And just to be clear, did Aqua have a
12 different position with respect to its view of this
13 report earlier in the proceeding? Or do you know?

14 A. Well, we had initially thought it was
15 something that we were going to collaborate with with
16 the Public Staff, and we were concerned about the
17 timing of it being so short in 90 days. But then we
18 realized -- internally we discussed and realized that's
19 not what the Public Staff was asking, at least as far
20 as we understood. Now, we could do a self-assessment
21 and report on that within 90 days, so there was a
22 little bit of a difference of understanding what that
23 was between then and now.

24 Q. Okay. All right. Thank you. I have one

1 more question. I think Commissioner Brown-Bland asked
2 some questions about flushing, and I just wanted to be
3 sure we carefully reflect it on the record.

4 What is the current status of your flushing
5 program?

6 A. Are you referring to --

7 Q. I mean with respect to the pandemic.

8 A. Oh, yeah. So we had made a decision earlier
9 on when the pandemic had started, you know, and
10 everybody started working from home, that we normally
11 start all of our flushing when we're not irrigating.
12 So we kind of do it earlier in the season in spring so
13 as not to, you know, pull away from the capacity. But
14 unfortunately, with everybody coming home, when we
15 flush, there are -- we're disturbing the water, or
16 we're disturbing minerals that might be in the system,
17 so it causes water quality issues.

18 We postponed a lot of our flushing -- and I
19 apologize I didn't clarify that for you,
20 Commissioner Brown-Bland, earlier -- but we put a pause
21 on a lot of our flushing of our systems because so many
22 people were home. We did not want to disrupt the water
23 quality -- you know, shake up the water, stir up the
24 water during that time. And we figured as soon as

1 everybody returned to work, we could start our flushing
2 program again.

3 We are looking at -- since we're now into
4 month three or four, actually, we have been looking at
5 doing some systems, probably in the middle of the night
6 and bringing in people to work a night shift, so we can
7 flush when people are sleeping and they're not actually
8 using the water to hopefully minimize any kind of water
9 quality components.

10 Q. Okay. Thank you, Mr. Becker. I have no more
11 questions.

12 COMMISSIONER BROWN-BLAND: All right.

13 Thank you, Mr. Becker. I will entertain motions.

14 MS. SANFORD: Let's see, I move

15 Mr. Becker's four exhibits into evidence, please.

16 COMMISSIONER BROWN-BLAND: All right.

17 Without objection, that motion is allowed and the
18 exhibits -- Mr. Becker's exhibits attached to his
19 prefiled testimony will be received into evidence
20 at this time.

21 (Becker Direct Exhibits 1 through 3 and
22 Becker Direct Revised Exhibit 3 were
23 admitted into evidence.)

24 COMMISSIONER BROWN-BLAND:

1 Commi ssi oner Clodfel ter?

2 COMMI SSI ONER CLODFELTER: Is this the
3 appropriate point to make inquiry about getting
4 into the record the confidential exhibit?

5 COMMI SSI ONER BROWN-BLAND: Yes.

6 COMMI SSI ONER CLODFELTER: Ms. Sanford,
7 of course it comes in subject to the
8 confidentiality designation.

9 MS. SANFORD: Right.

10 COMMI SSI ONER CLODFELTER: My question,
11 Mr. Grantmyre suggested that we might want to
12 revise exhibit, but I don't want to call for
13 something that is really -- make or would be very
14 difficult to do. He suggested that for each of the
15 jurisdictions on that -- shown on that exhibit, we
16 also add a column showing the capital spend in the
17 most recent -- or in the same period as the chart
18 covers, the trailing 12 months.

19 If I understood Mr. Becker's testimony
20 correctly, though, that would be a sort of half of
21 the information. That the real important data
22 point is the relative relationship between the
23 level of capital spend and the level of
24 depreciation of rate base taken. And I don't know

1 how difficult it is to generate that information.
2 But again, as I understand Mr. Becker, it's not
3 just the absolute level of capital spend, it's how
4 capital spend relates to the depreciation that's
5 being taken.

6 MS. SANFORD: I think there are two
7 questions before me here. Number one is how we get
8 this into the record. We have, of course, filed it
9 with the -- we filed it in the docket. And we
10 could make this a Becker direct exhibit.

11 COMMISSIONER CLODFELTER: That would be
12 fine.

13 MS. SANFORD: If that's satisfactory
14 with everybody. So that would satisfy the
15 mechanics of this. As to the question -- I hear
16 the question and the interest in the other items.
17 Might I suggest that I think what Aqua has to do --
18 Mr. Becker will certainly correct me -- but because
19 this was driven by corporate resources and it
20 involved all the states, I think that Aqua will
21 need to talk to corporate people to find out, to
22 answer your question what's involved. So may we do
23 that and report to you on the addition of the extra
24 item?

1 COMMISSIONER CLODFELTER: That's fair.

2 MS. SANFORD: Thank you. And then,
3 meanwhile, we will ask that that confidential
4 exhibit be marked Becker Direct Exhibit Number 4,
5 5? I can't remember. How many Shannon?

6 THE WITNESS: 4.

7 MS. SANFORD: 4. Okay. Becker Direct
8 Exhibit 4.

9 COMMISSIONER BROWN-BLAND: There were
10 four exhibits submitted; was that included?

11 MS. SANFORD: No, it was not, I'm sorry.
12 Then 5, Exhibit Number 5. Thank you.

13 THE WITNESS: There was Becker Direct
14 Exhibit 1, 2, and 3, and then Direct Exhibit 3
15 Revised. That makes four.

16 COMMISSIONER BROWN-BLAND: So that makes
17 the four. So this one is going to be identified as
18 Becker Direct Exhibit Number 4.

19 MS. SANFORD: Yes. And we would request
20 that that be moved into evidence and this docket
21 as -- and treated in all respects as a confidential
22 matter.

23 COMMISSIONER BROWN-BLAND: That will be
24 allowed. With regard to the item you were

1 discussing with Commissioner Clodfelter, you can
2 mark it as a Becker direct exhibit, but I believe
3 it should come in at this stage as a late-filed.

4 MS. SANFORD: Okay.

5 (Becker Direct Exhibit 4 was admitted
6 into evidence.)

7 MS. SANFORD: All right.

8 COMMISSIONER BROWN-BLAND: All right.

9 And does that conclude it for you, Ms. Sanford?

10 MS. SANFORD: Yes, ma'am. That's it for
11 me.

12 COMMISSIONER BROWN-BLAND: All right.

13 Mr. Grantmyre?

14 MR. GRANTMYRE: Public Staff would move
15 that Public Staff Becker Cross -- Public Staff
16 Becker Direct Cross Examination Exhibits 1 through
17 6 be admitted into evidence.

18 COMMISSIONER BROWN-BLAND:

19 Mr. Grantmyre, I had 1 through 5. Does the court
20 reporter have 1 through 6? We have 1 through 5,
21 Mr. Grantmyre.

22 MR. GRANTMYRE: Then 1 through 5, then.

23 COMMISSIONER BROWN-BLAND: All right.

24 That motion will be allowed without objection.

1 (Public Staff Becker Direct Cross
2 Examination Exhibits 1 through 5 were
3 admitted into evidence.)

4 COMMISSIONER BROWN-BLAND: Mr. Becker,
5 in the figurative sense, I suppose you may step
6 down. Also, I feel that, since she's not here and
7 no longer in the employ of the Public Staff, that,
8 one, for the benefit of the court reporter, and
9 also just to correct -- make sure the correct
10 pronunciation of her name gets in the record, it's
11 Cathy or Catherine Fernald. She was pretty adamant
12 about that during her times with us. And that's
13 F-E-R-N-A-L-D.

14 All right, Ms. Sanford. Commission, if
15 we can do it, would like to hear from witness
16 Gearhart.

17 MS. SANFORD: Yes. Could you give us
18 about -- we have to restage for parts of the
19 building here. Could you give us about five
20 minutes and we'll --

21 COMMISSIONER BROWN-BLAND: Let me say
22 this. We are trying our best to be done for the
23 day at 4:00, so I have to give you the time to be
24 able to --

1 MS. SANFORD: We'll get it right away.

2 COMMISSIONER BROWN-BLAND: Think we can?

3 Okay.

4 MS. SANFORD: Well, wait a minute, I see
5 him in our little square, so I don't need -- I
6 don't need five minutes.

7 Mr. Bennett, are you still on?

8 COMMISSIONER BROWN-BLAND: Yes, he's
9 there, I believe.

10 MR. BENNINK: Yes. I'll take it from
11 here, if that's okay.

12 MS. SANFORD: Okay. Thank you very
13 much.

14 MR. BENNINK: First, Mr. Gearhart, will
15 you state your name.

16 COMMISSIONER BROWN-BLAND: Hold on.
17 Just a minute. First of all, there's a lot of
18 feedback from Mr. Bennink's mic, I believe, unless
19 it's Mr. Gearhart. And second, you're calling
20 Mr. Gearhart now, Mr. Bennink?

21 MR. BENNINK: Yes.

22 COMMISSIONER BROWN-BLAND: I need to get
23 him to affirm.

24 Whereupon,

1

DEAN GEARHART,

2

having first been duly affirmed, was examined

3

and testified as follows:

4

COMMISSIONER BROWN-BLAND: All right.

5

Now, Mr. Bennink.

6

DIRECT EXAMINATION BY MR. BENNINK:

7

Q. Mr. Gearhart, could you state your name and

8

business address for the record, please?

9

A. Yes. My name is Dean Gearhart. My business

10

address is 22 MacKenan Court in Cary, North Carolina.

11

(Reporter interruption due to feedback.)

12

COMMISSIONER BROWN-BLAND: Try again,

13

Mr. Bennink.

14

Q. Did you prefile direct testimony in this

15

docket consisting of 21 pages with no direct exhibits?

16

A. I did.

17

Q. And if you were asked those same questions

18

today, would your answers be the same?

19

A. They would.

20

Q. Do you have any changes or corrections to be

21

made to that testimony?

22

A. I do not at this time.

23

MR. BENNINK: Commissioner Brown-Bland,

24

we would ask that Mr. Gearhart's direct testimony

1 be copied into the record as if given orally from
2 the stand.

3 (No audible response.)

4 MR. BENNINK: I couldn't hear you,
5 Commissioner, but --

6 COMMISSIONER BROWN-BLAND: That motion
7 will be allowed without objection. And,
8 Mr. Bennink, are you able to be on camera?

9 MR. BENNINK: Yes, sorry.

10 (Whereupon, the prefiled direct
11 testimony of Dean Gearhart was copied
12 into the record as if given orally from
13 the stand.)

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**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. W-218, SUB 526

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

IN THE MATTER OF
APPLICATION BY AQUA NORTH CAROLINA, INC.,
202 MACKENAN COURT, CARY, NORTH CAROLINA 27511
FOR AUTHORITY TO ADJUST AND INCREASE RATES FOR WATER
AND SEWER UTILITY SERVICE IN ALL SERVICE AREAS IN
NORTH CAROLINA

PREFILED DIRECT TESTIMONY OF
DEAN R. GEARHART
ON BEHALF OF
AQUA NORTH CAROLINA, INC.

December 31, 2019

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

2 A. My name is Dean R. Gearhart. My business address is 202 Mackenan
3 Court, Cary, NC 27511.

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

5 A. I am employed by Aqua North Carolina, Inc. ("Aqua" or "Company") as the
6 Rates and Planning Manager; as such, I provide financial supervision and
7 guidance to the controller and president of the state organization.

8 **Q. PLEASE BRIEFLY DESCRIBE YOUR BUSINESS EXPERIENCE.**

9 A. I joined the Company in 2007 as the State Controller. I have served as the
10 Rates and Planning Manager since 2010. Prior to joining Aqua, I had been
11 employed in the mortgage industry since 1992 – working at several
12 institutions such as a savings and loan in Maryland, the Federal Home Loan
13 Mortgage Company ("Freddie Mac"), as well as the mortgage company of
14 a home builder ("NVR") in Virginia. In Florida, I was employed by the
15 mortgage company of a home builder ("Mercedes Homes") as well as by
16 Pinnacle Financial, a mortgage company. At these companies I held
17 various accounting positions, including Accounting Manager and Assistant
18 Controller.

19 **Q. PLEASE DISCUSS YOUR EDUCATIONAL BACKGROUND.**

20 A. I am a graduate of the University of Maryland at College Park with a
21 Bachelor of Science degree in Accounting and am a licensed Certified
22 Public Accountant in North Carolina.

1 **Q BEFORE WHAT REGULATORY AGENCIES HAVE YOU PREVIOUSLY**
2 **APPEARED AND PRESENTED EXPERT TESTIMONY?**

3 A. I have assisted in the preparation of exhibits, discovery responses, and
4 testimony, and appeared as a witness before the North Carolina Utilities
5 Commission ("NCUC" or "Commission") in evidentiary hearings in previous
6 cases for Aqua North Carolina since 2007.

7 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

8 A. The purpose of my testimony is to summarize Aqua's adjustments to
9 Operating and Maintenance Expenses, Other Expenses, and
10 Miscellaneous Revenue and Expenses. Detailed calculations for each of
11 these adjustments are found within the Exhibits to "W-1, ITEM 10,
12 REVENUE AND EXPENSE ADJUSTMENTS" of the Company's
13 Application.

14 All expenses have been adjusted to reflect the correct levels during the first
15 year that rates will be in effect as a result of this Application for the following
16 rate divisions: a) Aqua North Carolina Water and Sewer; b) Fairways
17 Utilities Water and Sewer; and c) Brookwood Water.

18 I also summarize the Company's adjustments to rate base included in the
19 Application for Increased Rates filed in this docket. Detailed calculations
20 for each of these adjustments are found within the Exhibits to "W-1, ITEM
21 10, RATE BASE ADJUSTMENTS".

22 I also discuss the Company's request for approval to re-set the water and

1 sewer system improvement charge mechanisms, pursuant to G.S. 62-
2 133.12 and Commission Rules R7-39 and R10-26.

3 **Q. WHAT ROLE HAVE YOU PLAYED IN THE PREPARATION OF THIS**
4 **FILING?**

5 A. The schedules and exhibits in the Application were coordinated
6 and prepared by me or someone working in the Company's Accounting
7 Department.

8 **Q. WHAT TEST YEAR PERIOD DOES YOUR PREFILED TESTIMONY**
9 **ADDRESS?**

10 A. My testimony addresses amounts related to the test year in this
11 docket, which ended September 30, 2019, as well as certain
12 adjustments that extend into the post-test year that are known and
13 measurable and pro forma in nature.

14 **Q. PLEASE EXPLAIN YOUR ADJUSTMENTS TO LABOR EXPENSE –**
15 **SALARY AND WAGES.**

16 A. For purposes of this rate filing, I utilized the Company's approved
17 staffing level as of the fourth quarter of 2019. This consists of 182
18 positions, one (1) of which is part time and two (2) of which are
19 seasonal/summer positions. Each of the positions is identified with the
20 person holding the position at the time, or as "OPEN" if the position
21 was not filled at the time the labor file was created.

22 The elements of the Labor Expense Calculation are as follows:

- Each position is allocated a full year (2,080) of hours except for the part-time position, which works 20 hours a week. The seasonal employees were included with a total of 680 hours (17 weeks at 40 hours per week)
- Each position is calculated using the actual salary effective January 1, 2020, other than the open positions noted above, and an estimated 3% increase for annual merit increases that are effective April 1st of each year.
- The number of overtime (“OT”) hours in this filing is the exact amount incurred during the test year by department. The projected April 2020 hourly overtime rate for all OT-eligible positions within each department has been applied to those actual OT hours to calculate the annual overtime cost.
- Stand-By Pay was included at actual Test Year amounts by Rate Division with no adjustment.
- The process, outlined above, calculates a total annual cost for regular labor and overtime labor. The actual test year expense percentages were then applied to calculate the proper amount of regular labor and overtime labor expense. Finally, these expense amounts were allocated to the five rate divisions based on their relative percentages during the test year.

For example, if a rate division was 20% of the test year overtime expense, that rate division was allocated 20% of the updated overtime expense amount calculated above.

Q. PLEASE EXPLAIN YOUR ADJUSTMENTS TO LABOR EXPENSE – EMPLOYEE PENSIONS AND BENEFITS.

A. For purposes of this rate filing, the Company utilized the “benefits expense” projected for 2020 for North Carolina employees. The calculation includes person-by-person information for Medical, Dental, Life Insurance, Accidental Death & Dismemberment (“AD&D”), Long-Term Disability (“LTD”), 401K and Year End Contribution (“Profit Sharing”). The detail is provided by position. The benefits total includes the current approved staffing level of 182, less one part-time position and the two seasonal employees, for a total of 179 benefits-eligible employees. The estimates for the positions that were “newly hired” or OPEN at the time of the filing (thus not having benefits) were based on the average of actual benefits costs for the positions with benefits.

- A calculation was done for each of these benefits categories to determine the annual amount. Since Aqua capitalizes a portion of benefits costs, the labor expense rate (from the Item 10 Labor calculation) was applied to derive the total annual expense amount.
- The current annual amount in each category was then compared to the test year amounts to determine the pro forma adjustment

amounts needed. A percent increase was calculated and then applied to the test year amounts to properly allocate the final cost by rate division.

Q. PLEASE EXPLAIN YOUR ADJUSTMENTS TO PURCHASED WATER EXPENSE.

A. For all purchased water systems, the test year actual volumes of water purchased were used with the most recent/known vendor pricing applied to that volume.

Q. PLEASE EXPLAIN YOUR ADJUSTMENTS TO PURCHASED WASTEWATER TREATMENT EXPENSE.

A. For Aqua's City of Charlotte purchased wastewater systems, the test year actual volume was used, and the most recent/known vendor pricing was applied to those volumes. Charges from Carolina Water Service were adjusted for their 2019 rate increase (NCUC Docket No. W-354 Sub 360). A new expense item began in May 2019, for sending wastewater to be treated by Johnston County. An adjustment has been made to include a full year's impact of this Johnston County charge into the test year.

Q. PLEASE EXPLAIN YOUR ADJUSTMENTS TO PURCHASED POWER/FUEL.

A. No adjustments have been made to purchased power for this filing; however, any rate changes for Duke Energy Carolinas or Duke Energy Progress that may become official during this proceeding should be factored

1 into the final expense amount for this category.

2 **Q. PLEASE EXPLAIN YOUR ADJUSTMENTS TO SLUDGE EXPENSE.**

3 In the Item 10, an adjustment was made to adjust the test year to the actual
4 volume of sludge hauled during the test year. An adjustment was also made
5 to reflect vendor price increases in the Company's Western/Denver region.

6 **Q. PLEASE EXPLAIN YOUR ADJUSTMENTS TO CHEMICAL EXPENSE.**

7 A. For Item 10, there were no adjustments made to chemical volume, but there
8 was a significant adjustment for the price of caustic which has gone down
9 since the beginning of the test year. An adjustment was also made to other
10 chemicals to reflect the current unit price for each. These adjustments
11 result in a reduction to the test year chemical expense.

12 **Q. PLEASE EXPLAIN YOUR ADJUSTMENTS TO CORPORATE**
13 **SERVICES.**

14 A. During the test year, it was determined that Corporate Services amounts
15 were not allocated to the Fairways Water rate division for most of the test
16 year. These amounts appear as adjustments to expense in this filing and
17 are summarized in Exhibit B3-k to Item 10.

18 **Q. DID YOU MAKE ANY ADJUSTMENTS TO MATERIALS AND SUPPLIES**
19 **EXPENSE?**

20 A. No.

21 **Q. PLEASE EXPLAIN YOUR ADJUSTMENTS TO CONTRACTUAL**
22 **SERVICES.**

1 A. **Accounting** – No adjustments have been made to contractual services-
2 accounting for this filing.

3 **Legal** - For Item 10, the Company is submitting an adjustment to reflect the
4 actual charges for necessary legal support during the test year.

5 **Lab Testing** – Wastewater testing has been adjusted to the projected 2020
6 level – with plant-by-plant schedules included in Item 10. An adjustment
7 was also done to reflect the proper amortization of tests that are required
8 every nine years but were being amortized over a shorter period.

9 **For Contractual Services – Other**

10 Contractual Services – Other includes the following Aqua categories: Aqua
11 Customer Operations (“ACO”) Direct Expenses & Allocations, Outside
12 Services IT, Outside Services Operations, Outside Services Maintenance
13 and Outside Services “Other”.

14 The factors for the adjustments to Contractual Services – Other expenses
15 include:

- 16 • Annualization of an increase in the Microsoft licensing (IT) costs.
- 17 • An adjustment for a full year of the current cost of the Water
18 Remediation Treatment (“WRT”) units located in the Fayetteville and
19 Cary regions from leased equipment to Contract Services-
20 Operations.
- 21 • Adjustment for United States Postal Service (“USPS”) postage
22 increases, effective January 2019.

- An adjustment to get to the actual charges incurred for USIC Locating Services, LLC during the test year.
- An adjustment has been made to include a full year of increased charges for Governor's Club.
- Finally, an adjustment has been made to remove all Temporary Labor incurred during the test year. Since the Labor Expense amounts (above) assume no open positions, the Company is removing test year temporary labor charges used to fill such positions. If the Company has labor expense reduced for vacancies, then these Temporary Labor charges would need to be added back to reflect the cost of vacancies.

Q. PLEASE EXPLAIN YOUR ADJUSTMENTS TO RENTAL OF BUILDINGS/LAND.

A. The adjustments reflect the updated 2019 rental fees for one Aqua regional office and the lease expense for well lots in the Brookwood Water area.

Q. PLEASE EXPLAIN YOUR ADJUSTMENTS TO TRANSPORTATION EXPENSE.

A. An adjustment has been made to reflect the three-year average for fuel price, which was applied to the test year fuel volume.

Q. PLEASE EXPLAIN YOUR ADJUSTMENTS TO BAD DEBT EXPENSE.

A. The Company applied test year bad debt expense amount, as a percentage of the test year per books service revenue, to the requested revenue

1 increase to calculate the adjusted bad debt amount. All adjustments are
2 related to the requested increase in revenues. This adjustment is calculated
3 in Exhibit E to the Applications to Increase Rates and Charges, discussed
4 below.

5 **Q. PLEASE EXPLAIN YOUR ADJUSTMENTS TO LIABILITY INSURANCE**
6 **EXPENSE.**

- 7 • The Company adjusted the test year amounts to include the liability
8 insurance cost that Aqua will incur during 2020.
- 9 • For this filing, Aqua is requesting the five-year average of actual claims paid
10 for the years 2014-2018. This matches the methodology applied by the
11 Public Staff, and approved by the Commission, to calculate the insurance
12 adjustment in previous rate cases.
- 13 • In conjunction with this treatment for claims, the Company requests
14 authority to create a deferred regulatory asset / liability for insurance claims
15 paid in excess of (asset) or less than (liability) as compared to the
16 authorized annual claim expense as approved by the NCUC in this rate
17 case (base level annual claims insurance recovery). If there is any excess
18 balance (liability) or shortfall (asset) existing at the end of the next test year,
19 that balance will be divided by 2 and applied to the base level annual claims
20 insurance recovery amount. This method will be the recovery approach for
21 all Aqua rate cases going forward.
- 22 ○ Alternatively, the Company requests recovery for a zero deductible

1 insurance policy for general liability, workman's compensation and
2 auto insurance.

3 **Q. PLEASE EXPLAIN YOUR ADJUSTMENTS TO MISCELLANEOUS**
4 **EXPENSE.**

5 A. Miscellaneous expense has been adjusted by removing all test year
6 amounts for Fines & Penalties, as these costs are not requested for
7 recovery. In addition, a prior period invoice has been adjusted out of the
8 test year total and an adjustment has been made to reflect the 2019 USPS
9 increase in postage costs.

10 **Q. PLEASE EXPLAIN YOUR ADJUSTMENTS TO DEPRECIATION AND**
11 **CONTRIBUTIONS IN AID OF CONSTRUCTION ("CIAC")**
12 **AMORTIZATION EXPENSE.**

13 A. Utility Plant in Service depreciation and CIAC amortization expense
14 adjustments have been calculated using the same methodology as was
15 consistently applied in previous rate cases. Depreciation expense was
16 computed on the balances in the utility plant in service accounts as of
17 September 30, 2019, which was then adjusted for post-test year additions
18 and allocated general plant. The depreciation expense calculated
19 represents an annualized level of expense on all utility plant in service at
20 September 30, 2019, as adjusted for post-test year additions expected to
21 be in service before the conclusion of this proceeding. Amortization
22 expense on CIAC was computed on the balances of contributions in aid of

1 construction at September 30, 2019. The amortization expense calculated
2 represents an annualized level of expense on all CIAC closed as of
3 September 30, 2019. The depreciation/CIAC rates used in the annual
4 calculation are from the depreciation study completed by Gannett Fleming,
5 which was filed in 2018 and approved as part of W-218 Sub 497.

6 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO GAIN ON SALE OF**
7 **ASSETS.**

8 A. No adjustment has been made to gain on sale.

9 **Q. DID YOU MAKE ANY ADJUSTMENTS TO NON-UTILITY REVENUE?**

10 A. Non-Utility Revenue consists of antenna revenue and no adjustment was
11 made.

12 **Q. PLEASE EXPLAIN YOUR ADJUSTMENTS TO RATE CASE EXPENSE.**

13 A. Rate case expense has been calculated estimating total costs for the
14 current rate filing. These costs include:

- 15 • Legal Services provided by Aqua's primary regulatory attorneys;
- 16 • Labor from Service Company employees as well as Aqua
17 Contractors ("Billing & Rates Departments");
- 18 • Expenses including printing, customer notices, filing fees, necessary
19 travel, and other administrative costs;
- 20 • Cost of outside consultant for work on Rate of Return and Capital
21 Structure Issues;

22 These costs are calculated to amortize over a two-year period, in keeping

1 with Aqua NC's anticipated rate filing interval.

2 **Q. PLEASE EXPLAIN YOUR ADJUSTMENTS TO TAXES OTHER THAN**
3 **INCOME.**

4 A. First, the North Carolina Utilities Commission/Public Staff Regulatory Fee
5 Assessment has been calculated for the test year and adjusted to
6 correspond to the Company's "applied for" rate increases. Second, payroll
7 taxes have been adjusted for the pro forma increase in labor expense.
8 NOTE – these adjustments are calculated in Exhibit E to the Applications to
9 Increase Rates and Charges, also described below.

10 **Q. PLEASE EXPLAIN YOUR ADJUSTMENTS TO AMORTIZATION**
11 **EXPENSE.**

12 A. This expense has been adjusted to reflect the level of tank painting
13 amortization as of the end of the test year.

14 **Q. PLEASE EXPLAIN THE MISCELLANEOUS ADJUSTMENTS TO**
15 **REVENUE AND EXPENSE LOCATED IN THE EXHIBITS E TO THE**
16 **APPLICATIONS TO INCREASE RATES AND CHARGES OF THE**
17 **CURRENT RATE FILING.**

- 18 • The late payment fees percentage incurred during the test year has been
19 applied to pro forma revenues to produce the amount of pro forma late
20 payment fees.
- 21 • The same treatment was given to Abatements.
- 22 • The adjustment to Bad Debt Expense/Uncollectibles (discussed above) is

1 calculated in Exhibit E by applying the test year percentage to the updated
2 revenue amounts.

- 3 • For ratemaking purposes, the Company's interest expense claim has been
4 synchronized with rate base in this proceeding, which is supported by W-1,
5 Item 3 and Exhibit M to the Applications to Increase Rates and Charges.
6 The per books amounts for Interest on Long-Term Debt, Short-Term Debt,
7 Pushdown Debt, Interest Expense-Other and the Amortization of Debt
8 Issuance costs have been adjusted to zero as part of this process. These
9 per books adjustments are reflected in Exhibit E. NOTE - Interest expense
10 on customer deposits for the test year was left unchanged.
- 11 • Taxes (such as payroll taxes, Commission/Public Staff regulatory fees, and
12 per books income taxes) are updated in Exhibit E.
- 13 • Miscellaneous non-utility expenses, which should not be considered for
14 ratemaking purposes, have also been removed in Exhibit E.
- 15 • Annualization and adjustment factors are calculated and applied in Exhibit
16 E and applied to certain variable expenses.

17 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO STATE AND FEDERAL**
18 **INCOME TAXES.**

19 A. State and federal income taxes are based on the statutory corporate rates
20 of 2.5% and 21.0%, respectively, applied to the pro forma level of income. This
21 calculation is detailed in Exhibit K to the Applications to Increase Rates and
22 Charges.

1 **Q. PLEASE DESCRIBE YOUR ADJUSTMENT TO UTILITY PLANT IN**
2 **SERVICE.**

3 A. The historical UPIS balance was adjusted to include post-test year additions
4 ("PTY Adds") and allocated general plant. PTY Adds represent capital
5 expenditures that were not in service at the conclusion of the test year, but
6 which are expected to be completed and in service ("used and useful") prior
7 to the conclusion of this proceeding. Support for the adjustments specific
8 to additional new spending is identified through pro forma adjustments, as
9 referenced in Exhibit A-1 for Water and Exhibit A-2 for Sewer, within the
10 Company's Application for Rate Increase Form W-1, Item 10.

11 Adjustments were also made for allocated general plant, which are assets
12 that benefit all of the operating units of Aqua statewide and are recorded on
13 the Company's books in an "Administrative" accounting unit for accounting
14 purposes, thus not reflected within the historic test year balances of UPIS
15 within each rate division. These types of assets include both "Common"
16 and Information Technology ("IT") and are further detailed in Exhibit A-1 for
17 Water and Exhibit A-2 for Sewer, within the Company's Application for Rate
18 Increase, Form W-1, and Item 10.

19 **Q. PLEASE DESCRIBE YOUR ADJUSTMENT TO THE ACCUMULATED**
20 **DEPRECIATION RESERVE.**

21 A. Two specific adjustments were made to the historic test year ending
22 balances at September 30, 2019, related to the Accumulated Depreciation

1 Reserve ("Accum. Depr"). First, a full year's depreciation was calculated on
2 all test year additions. Second, a full year's depreciation was calculated on
3 requested post-test year additions. The depreciation rates used for the
4 calculation of the accumulated depreciation reserve are historically
5 approved depreciation rates. These adjustments are referenced in Exhibit
6 A-1 for Water and Exhibit A-2 for Sewer, within the Company's Application
7 for Rate Increase Form W-1, Item 10.

8 **Q. PLEASE DESCRIBE YOUR ADJUSTMENT TO THE LEVEL OF**
9 **MATERIALS AND SUPPLIES.**

10 A. Three adjustments were made to the level of materials and supplies ("M&S")
11 included in pro forma rate base. First, a 13-month average was calculated
12 of outstanding inventory balances as of September 30, 2019. These
13 adjustments are allocated based on the customer counts as shown on
14 Appendix 3. The supporting calculation for the 13-month average inventory
15 is as referenced in Exhibit A-1 for Water and Exhibit A-2 for Sewer within
16 the Company's Application for Rate Increase Form W-1, Item 10.

17 **Q. PLEASE EXPLAIN YOUR WORKING CAPITAL ALLOWANCE.**

18 A. I calculated cash working capital (Exhibit L to the Applications to Increase
19 Rates and Charges) as 1/8 of operating and maintenance expense,
20 excluding purchased water and sewer, plus customer deposit interest. In
21 addition, the Company added the average prepayments such as
22 unamortized tank painting, rate case expense, unamortized depreciation

1 study costs, and unamortized repair tax credit costs. Deducted from these
2 amounts are the average tax accruals calculated as 1/6 of unemployment
3 tax and regulatory assessment fee, and 1/2 of property taxes.

- 4 • In addition, adjustments were made here related to the Johnston
5 County transmission and distribution charge from the Docket No. W-
6 218 Sub 497 case and the Company's request for deferred
7 accounting treatment on post-test year additions. Both of these
8 items are discussed in detail in the direct testimony of Ed Thill.

9 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO UTILITY PLANT**
10 **ACQUISITION ADJUSTMENT.**

11 A. Adjustments have been made to the utility plant acquisition adjustment
12 ("UPAA") balance for post-test year ("PTY") additions.

13 These adjustments are referenced in Exhibit A-1 within the Company's
14 Application for Rate Increase, Form W-1, Item 10, and in PTY addition
15 updates provided to the Public Staff.

16 **Q. PLEASE EXPLAIN YOUR ADJUSTMENTS TO ACCUMULATED**
17 **AMORTIZATION OF CONTRIBUTIONS IN AID OF**
18 **CONSTRUCTION.**

19 A. An adjustment was made to CIAC to allow for a full year of
20 amortization on test year additions. The amortization rates used
21 for the calculation of the accumulated amortization reserve are the
22 approved amortization rates. This adjustment is further detailed as

1 referenced in Exhibit A-1 for Water and Exhibit A-2 for Sewer, within
2 the Company's Application for Rate Increase Form W-1, Item 10.

3 **Q. PLEASE EXPLAIN THE COMPANY'S CALCULATIONS REGARDING**
4 **REVENUES.**

5 A. The Company has provided an analysis of the test year consumption and
6 number of bills from October of 2018 — September of 2019. The test year
7 revenue amounts have been normalized to reflect a full year of consumption
8 with the customer count/bill count projected through March 31, 2020.
9 Additional detail on rate design is provided in the direct testimony of Edward
10 Thill.

11 **Q. HAS THE COMPANY REQUESTED APPROVAL OF A "RE-SET" OF**
12 **THE WATER SYSTEM IMPROVEMENT CHARGE AND SEWER SYSTEM**
13 **IMPROVEMENT CHARGE THAT WAS APPROVED IN ITS PREVIOUS**
14 **PROCEEDING?**

15 A. Yes. Pursuant to G.S. 62-133.12 and Commission Rules R7-39 and R10-
16 26, Aqua has requested approval to "re-set" the WSIC and SSIC to zero
17 upon the issuance on the final rate order in this proceeding. Aqua commits
18 to continue to operate under and comply with the NCUC-established WSIC
19 and SSIC rules.

20 **Q. ARE THERE ANY OTHER REQUIREMENTS SET FORTH IN THE**
21 **NCUC'S WSIC/SSIC RULES THAT SHOULD BE ADDRESSED IN THIS**
22 **PROCEEDING?**

1 A. Subject to further Order by the Commission, Aqua will continue to file the
2 following reports within 45 days after the end of each calendar quarter in
3 the format prescribed by the Commission: (1) a quarterly earnings report;
4 (2) a quarterly report of WSIC/SSIC collections from customers; and (3) a
5 construction status report.

6 (1) Quarterly Earnings Report – consisting of the following:

7 (a) A balance sheet and income statement for the calendar
8 quarter and calendar year to date for Aqua;

9 (b) A statement of the per books net operating income for the
10 calendar quarter and calendar year to date for each rate
11 division (Aqua Water, Aqua Wastewater, Brookwood Water,
12 Fairways Water, and Fairways Wastewater), based on North
13 Carolina ratemaking and in the same format as the Per Books
14 column on Schedule B of the Company's Application;

15 (c) A statement of rate base at the end of the calendar quarter for
16 each rate division based on North Carolina ratemaking in the
17 same format as the Per Books column on Schedule C of the
18 Company's Application; and

19 (d) The number of customers and gallons sold for each month of
20 the calendar quarter for each rate division by rate type (meter
21 size, flat rate, etc.).

22 (2) Quarterly Report of WSIC/SSIC Collections – providing the

1 calculation of the WSIC/SSIC amounts collected for the quarter by
2 rate division and rate type.

- 3 (3) Quarterly Construction Status Report – including by rate division the
4 following information for each eligible system improvement project:
5 (a) the cost incurred during the quarter, (b) the cumulative amount
6 incurred, (c) the estimated total cost for the project, (d) the estimated
7 completion date, and (e) the actual completion date.

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

9 **A.** Yes.

1 MR. BENNINK: If it's okay, we'll go
2 ahead and introduce his rebuttal testimony now,
3 too. I think all the parties have waived
4 cross-examination, so we'll go ahead and get that
5 in the record.

6 COMMISSIONER BROWN-BLAND: All right.

7 Q. Mr. Gearhart, did you file rebuttal testimony
8 consisting of 11 pages and Gearhart Rebuttal Exhibits 1
9 and 2?

10 A. I did.

11 Q. Do you have any changes or corrections to
12 make to your testimony?

13 A. Other than I believe all the rebuttal items
14 have been agreed upon in the settlement, no.

15 Q. Do you have any changes or corrections to
16 make to the testimony?

17 A. Not at this time.

18 Q. If you were asked those same questions today,
19 would your answers be the same?

20 A. I would.

21 MR. BENNINK: Commissioner Brown-Bland,
22 we would ask that Mr. Gearhart's rebuttal testimony
23 be copied into the record as if given orally from
24 the stand.

1 COMMISSIONER BROWN-BLAND: All right.
2 Without objection, that motion is allowed. And his
3 testimony is received and will be treated as if
4 given orally from the witness stand.

5 (Whereupon, the prefilled rebuttal
6 testimony of Dean Gearhart was copied
7 into the record as if given orally from
8 the stand.)

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**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. W-218, SUB 526

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

IN THE MATTER OF
APPLICATION BY AQUA NORTH CAROLINA, INC.,
202 MACKENAN COURT, CARY, NORTH CAROLINA 27511
FOR AUTHORITY TO ADJUST AND INCREASE RATES FOR WATER
AND SEWER UTILITY SERVICE IN ALL SERVICE AREAS IN
NORTH CAROLINA

PREFILED REBUTTAL TESTIMONY OF
DEAN R. GEARHART
ON BEHALF OF
AQUA NORTH CAROLINA, INC.

June 12, 2020

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

2 A. My name is Dean R. Gearhart. My business address is 202 Mackenan
3 Court, Cary, NC 27511.

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

5 A. I am employed by Aqua North Carolina, Inc. ("Aqua", "Aqua North Carolina",
6 or "Company") as the Manager of Rates and Planning; as such, I provide
7 financial supervision and guidance to the president of the state organization.

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

9 A. My rebuttal testimony will address certain expense related
10 adjustments made by Public Staff witnesses Henry and Feasel and
11 comments made by Public Staff witness Junis.

12 **Q. WITH WHICH OF PUBLIC STAFF'S CURRENT, UPDATED**
13 **ADJUSTMENTS DO YOU AGREE?**

14 A. Aqua and the Public Staff have agreed to a number of updated adjustments,
15 and they will be reflected in Public Staff's revisions to the Schedules of
16 Public Staff Henry Exhibit I. These adjustments apply to the following
17 enumerated line items

18 2- Difference in calculation of revenue requirement based on Company amounts

19 3- Adjust debt cost rate to 4.21%

20 6- Adjustment to allocate vehicle purchased

21 8- Adjustment to remove A/D related to future customers

22 9- Adjustment to A/D for vehicle allocations

23 10- Adjustment to A/D for WSIC/SSIC in service date

24 11- Adjustment to post test year additions to CIAC

- 1 13- Adjustment to post test year additions PAA
- 2 14- Adjustment for Mid South growth related PAA to 03/31/20
- 3 15- Adjustment to post test year additions accumulated amortization - PAA
- 4 16- Adjustment to update advances for construction to 03/31/20
- 5 17- Adjustment to ADIT - post test year additions
- 6 18- Adjustment to ADIT - unamortized rate case expense
- 7 19- Adjustment to ADIT - unamortized repair tax credit
- 8 20- Adjustment to ADIT - protected EDIT
- 9 21- Adjustment to update customer deposits to 03/31/20
- 10 23- Adjustment to cash working capital
- 11 26- Adjustment to depreciation study
- 12 27- Adjustment to repair tax credit
- 13 29- Adjustment to remove JoCO transmission revenue deficit
- 14 31- Adjustment to average tax accruals
- 15 32- Adjustment to service revenues
- 16 33- Adjustment for late payment fees
- 17 34- Adjustment to uncollectibles and abatements
- 18 35- Adjustment to remove capitalize labor
- 19 36- Adjustment to add transportation regular payroll
- 20 37- Adjustment to update salaries and wages March 31, 2020
- 21 38- Adjustment to remove leave without pay
- 22 39- Adjustment to reflect actual standby and overtime salaries and wages
- 23 44- Adjustment to update pensions and benefits to March 31, 2020
- 24 46- Adjustment to remove unqualified benefits from Corporate Sundries
- 25 47- Adjustment to fuel for production
- 26 48- Adjustment to sludge removal
- 27 49- Adjustment to purchased power
- 28 50- Adjustment to materials and supplies

1 51- Adjustment to testing

2 52- Adjustment to contractual services - legal

3 54- Adjustment to contractual services - other- corporate sundries

4 55- Adjustment to contract services - other- accrued expenses

5 58- Adjustment to remove capitalize miscellaneous expense

6 61- Adjustment to remove unqualified misc exp. for Corporate Sundries

7 63- Adjustment to Contra-OH allocations

8 64- Adjustment to amortized EDIT

9 65- Adjustment to payroll taxes

10 67- Adjustment to contract services - other- Temporary labor

11 68- Rounding difference

12 The Company agrees with the items above, although the final dollar
13 amounts of some line items depend on other factors still to be settled in the
14 case and may change.

15 **Q. DO YOU AGREE WITH THE PUBLIC STAFF'S ADJUSTMENT TO**
16 **INSURANCE EXPENSE?**

17 A. No. There is one element of the Public Staff adjustment that the Company
18 contends is incorrectly calculated and needs to be adjusted. The corporate
19 allocation factors used to allocate insurance expense to its states is
20 recalculated by the Public Staff in rate cases to validate their approved
21 amounts for recovery. Witness Feasel's independent check to recalculate
22 and validate the payroll allocation factors is incorrect.

23 Insurance costs are allocated to Aqua North Carolina based on *total* payroll
24 dollars. In Feasel Exhibit I Schedule 6-1(a), witness Feasel recalculates
25 payroll allocation factors based only upon the expense portion of NC payroll

1 (\$8,467,427) and leaves out the direct capital labor portion of NC payroll
2 (\$2,014,483); this capital labor amount can be seen in Aqua NC's rate case
3 filing as W-1 Item 10, Exhibit B1/B2-7 (line 6 for overtime labor & line 7 for
4 regular labor). The sum of the expense and capital components together
5 represents total NC payroll of \$10,481,909. General liability and worker's
6 compensation are computed based on total payroll. Feasel Exhibit I
7 Schedule 6-1(a) fails to consider total NC payroll in her allocation factors
8 used to calculate their proposed adjustment and, resultantly, understates
9 the amounts allocated to Aqua North Carolina in her calculation. The
10 allocation factors recalculated by witness Feasel for Aqua North Carolina
11 are 7.75% for general liability (line 5) and 8.59% for workers compensation
12 (line 6).

13 The Company requests that the capital labor amount of \$2,014,483 be
14 added to witness Feasel's payroll allocation factor calculation – specifically
15 to Schedule 6-1(a) line 1, column a.

16 If this direct capital labor amount is included, the resulting Aqua North
17 Carolina's payroll factors would be 9.21% for general liability and 10.21%
18 for workers compensation (versus the 7.75% and 8.59% calculated by
19 witness Feasel).

20 The impact of this requested change, as it stands now, would be an
21 increase in expense recovery of \$28,498. This amount could change if
22 there are any changes to the final Aqua NC payroll amounts approved in
23 this proceeding.

1 Discussions between the Company and witness Feasel on this specific
2 matter are ongoing.

3 **Q. DO YOU AGREE WITH PUBLIC STAFF WITNESS JUNIS' ASSERTIONS**
4 **RELATED TO AQUA'S REQUEST FOR DEFERRED ASSET / LIABILITY**
5 **TREATMENT FOR INSURANCE CLAIMS PAID IN EXCESS OF (ASSET)**
6 **OR LESS THAN (LIABILITY) THE COMMISSION-APPROVED ANNUAL**
7 **CLAIM EXPENSE IN THIS RATE CASE?**

8 **A.** No. Aqua North Carolina has experienced significant reductions to its
9 insurance expense recovery of claims expense for workers compensation,
10 automotive and general liability in past rate cases. The Public Staff's
11 methodology to calculate the amount of recoverable insurance claims
12 expense has been to utilize a five-year average of actual claims paid. The
13 amount of insurance claims expense charged to the Company from
14 corporate is based on a fully developed claim vs actual claims paid. Since
15 fully developed claims estimate the total amount of claims to be paid and
16 actual claims paid are based on history, there is a gap. Aqua's allowed
17 recovery in past rate cases has been based on the Public Staff's
18 methodology.

19 In Docket No. W-218, Sub 497, Aqua NC has incurred claims totaling
20 \$587,076, with an expensed amount (net of the capitalized portion) of
21 \$490,870. After adjusting to the five-year history of claims paid, the
22 expense amount that Aqua NC received in the rate order was \$135,606
23 (Cooper Schedule 3-3(a) Revised lines 13-15). This was a reduction to

1 Aqua NC's insurance expense of \$355,264.

2 In this proceeding, for the first time, the Company included in its filing the
3 adjustment to reduce its expense for claims to the Public Staff's
4 methodology using the five-year average of paid claims. During discovery,
5 the paid claims amounts were updated to include the amounts for the years
6 2015 through 2019 (5 years). As it stands now, using this five-year average
7 methodology, Aqua will recover claims expense that will be \$322,000 less
8 than the actual claims amounts charged to it in 2020. Aqua has agreed in
9 this case to accept that reduction, but requests that the approved five-year
10 average, representative of the annual amount of claims paid and allowed in
11 rates, be trued-up to actual claims paid as a regulatory asset or liability to
12 be recovered in future rate cases.

13 While the Company did agree, in this rate case filing, to include this claims
14 adjustment as a decrease to its insurance expense request, the Company
15 does *not* agree with the *concept* of this adjustment.

16 Aqua America provides insurance coverage for its states' operations at a
17 greatly reduced cost compared to the actual costs that would be incurred if
18 the states had to provide said coverage individually.

19 In the Fall of 2019, Aqua North Carolina received a quote for stand-alone
20 coverage for Workers Compensation, Automotive and General Liability that
21 was in excess of \$3,000,000. (See Gearhart Exhibit 1 – NC Stand-Alone
22 Insurance).

1 During 2020, The Company will incur a cost of \$735K for this same
2 insurance coverage.

3 This comparison demonstrates the reasonableness of the Company's
4 current approach to insurance coverage and its full recovery. This approach
5 does have some risk / opportunity due to actual claims being different than
6 the developed projections done by a claim's adjuster specialist. For that
7 reason, what Aqua is proposing in this case is the use of a simple over /
8 under balancing account for these actual claims paid so neither the
9 Company's ratepayers nor its shareholders "win" or "lose".

10 The Company will incur total claims related charges of approximately \$587K
11 in 2020, which equates to about \$491K in expense. However, in this rate
12 case, the Company stands to recover \$136K in expense related to these
13 policies.

14 The calculations related to claims referenced in this section are attached as
15 "Gearhart Exhibit 2-Insurance Claims Adjustments"

16 Witness Junis, at page 45 of his prefiled testimony, suggests the following
17 could happen if the Company were allowed to recover the costs that it
18 actually incurs:

19 ...Aqua's guaranteed recovery of all workers' compensation
20 claims would disincentive Aqua's employee safety education
21 and practices, including the provision of safe work places and
22 personal protective equipment such as hard hats, safety
23 glasses, and steel-toed boots. Again, the guarantee would be
24 a disincentive [to] Aqua to minimize workers' compensation
25 claims.
26

27 These suggestions are speculative, unfounded, and should be given zero

1 weight to the discussion at hand. Aqua America and Aqua North Carolina
2 place an exceptional amount of attention to the safety culture of the utility.
3 Every Aqua state is responsible for safety initiatives and metrics and none
4 of them, aside from Aqua North Carolina, are challenged on their insurance
5 expense recovery in their respective rate cases.

6 **Q. WITNESS FEASEL PROPOSES THAT 17.5% OF BONUSES PAID**
7 **TO NORTH CAROLINA EMPLOYEES AS WELL AS 50% OF**
8 **STOCK OPTIONS, RESTRICTED STOCK AND PERFORMANCE**
9 **SHARES GRANTED TO NORTH CAROLINA EMPLOYEES**
10 **SHOULD BE ALLOCATED TO SHAREHOLDERS. DO YOU**
11 **AGREE WITH THIS ASSESSMENT?**

12 A. No. The short-term incentive ("STI") bonuses, stock options,
13 restricted stock and performance shares are part of the total
14 compensation package, paid to attract and retain qualified
15 employees at Aqua North Carolina. The financial metrics that
16 witness Feasel cites as arguments for this adjustment, actually
17 reinforce to Aqua employees that it is their responsibility to serve
18 the Company's customers in a prudent and efficient manner. The
19 Company's ability to provide reliable service to its customers is
20 directly related to its financial viability and linking a portion of those
21 employees' compensation to a financial target encourages
22 employees to achieve customer-based objectives in a cost-efficient
23 manner.

1 **Q. PLEASE EXPLAIN WHAT NC EMPLOYEE BONUS ADJUSTMENTS**
2 **WERE PROPOSED BY THE PUBLIC STAFF IN THE COMPANY'S**
3 **2018 RATE CASE AND HOW IT DIFFERS FROM THIS CASE.**

4 In the Company's 2018 Sub 497 rate case, the Public Staff
5 proposed to allocate 30% of (STI) bonuses paid to Aqua NC
6 supervisory employees. In this proceeding, the requested
7 adjustment has been expanded to also include stock options,
8 restricted stock, and performance share grants. This adjustment
9 has also been expanded to cover these items for all Aqua North
10 Carolina employees; not just supervisors. Aqua North Carolina
11 non-supervisory employees are eligible for bonuses referred to as
12 "Chairman Awards" and during the test year, these awards were
13 paid to over one hundred Aqua North Carolina employees.

14 **Q. PLEASE EXPLAIN HOW THE COMMISSION TREATED**
15 **ADJUSTMENTS TO NC EMPLOYEE BONUSES IN THE**
16 **COMPANY'S 2018 RATE CASE IN DOCKET NO. W-218, SUB 497.**

17 In the December 2018 SUB 497 Rate Case Order, the Commission
18 found that adjustments to supervisory employee bonuses was
19 "unreasonable and inappropriate," concluding that approving the
20 Public Staff's position on this issue "would send the wrong message
21 to Aqua NC and its North Carolina supervisory personnel." The
22 Company believes the Commission should deny the Public Staff's
23 request in this proceeding for the same reasons set forth in the Rate

1 Case Order in the Sub 497 proceeding, *especially* now that the
2 proposed adjustment would impact all levels of Aqua North Carolina
3 employees.

4 **Q. DO YOU AGREE WITH THE PUBLIC STAFF'S ADJUSTMENT TO**
5 **REGULATORY COMMISSION EXPENSE?**

6 A. No, as this number is not final as of the date of this rebuttal testimony. Aqua
7 will soon be providing an update of actual and projected rate case expense
8 through the close of the hearing in this case and requests that the
9 Commission approve the requested amount for inclusion in rates in this
10 proceeding. The Company has requested a two-year amortization of the
11 final rate case expense. This amortization period reflects the fact that the
12 test year in Aqua NC's current Sub 526 rate case is two years later than the
13 test year in its previous case (9/30/2019 vs 9/30/2017).

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

15 A. Yes.

1 MR. BENNINK: And his rebuttal exhibits
2 be identified as marked.

3 COMMISSIONER BROWN-BLAND: That motion
4 is also allowed.

5 (Gearhart Rebuttal Exhibits 1 and 2 were
6 marked for identification.)

7 MR. BENNINK: All right. With that,
8 Mr. Gearhart is available for Commission questions.

9 COMMISSIONER BROWN-BLAND: All right.
10 Mr. Gearhart, I have no idea why, but there's
11 really bad feedback, and so you will need to -- in
12 between questions, you'll need to go on and off
13 mute. And I ask the host to be aware and help as
14 well. All right.

15 Do any other commissioners have
16 questions for witness Gearhart?

17 (No response.)

18 COMMISSIONER BROWN-BLAND: Okay. No one
19 is speaking up, so it's on me. All right.

20 EXAMINATION BY COMMISSIONER BROWN-BLAND:

21 Q. Mr. Gearhart, we just have a few. And the
22 first concerns the EDIT riders.

23 Will the federal unprotected EDIT rider and
24 the state EDIT rider that were approved by the

1 Commission in the Company's last rate case continue to
2 be flowed back to customers as riders as was ordered in
3 Sub 497?

4 A. It will. Those refunds have been going on
5 since the beginning of 2019. As of June, we're
6 actually, I guess, halfway through the three-year
7 refund period. So yes, the plan is -- the original
8 plan was that they would be refunded from calendar
9 years 2019, '20, and '21, and that plan will continue.
10 So short answer is yes.

11 Q. Did Aqua's customers receive the full amount
12 of the provisional revenues through the one-year bill
13 credit that the Commission approved in the Sub 497?

14 A. Yes. Basically, we had -- we -- a refund
15 target of \$1.641 million to be refunded during the
16 calendar year 2019. We actually refunded slightly
17 higher than that amount. I carried over slightly into
18 2020, but we actually refunded about \$6,000 more than
19 the original target. The short answer, again, is yes,
20 those refunds were done and have been completed as of
21 this date.

22 Q. Now, a few questions about the insurance
23 expense. On page 13, paragraph ZZ, this is of the
24 stipulation. The stipulating parties did not identify

1 when the 50 percent true-up related to the agreed upon
2 establishment of a regulatory asset or liability would
3 take place in the next -- for example, in the next
4 general rate case or by three years from the date of
5 the Commission order, whichever is earlier.

6 What is the agreed upon time period to
7 address the adjustment to customers for the amounts --
8 for the amounts that Aqua records to the regulatory
9 asset or liability account on its books?

10 A. Well, to be honest with you, I'm not
11 100 percent sure if we completely ironed that out yet.
12 I believe that might still be a question, subject to
13 check. I apologize if it has been resolved and I
14 wasn't aware of it. I think we agreed on the concept,
15 but I don't think the exact time frame has been
16 defined. But again, that's subject to check. I don't
17 believe we 100 percent figured that out.

18 Q. Was there an outer date established in case
19 Aqua doesn't file a general rate case in the next two
20 to three years?

21 A. If there was, I'm not aware of it. And
22 again, I apologize if I missed something I should know,
23 but I don't believe that was, no.

24 Q. All right. Could you please explain how Aqua

1 would calculate the amount recorded to the asset or
2 liability account to reflect a potential future
3 50 percent true-up to the actual claims? Would it
4 be -- would it be --

5 (Reporter interruption due to microphone
6 going mute.)

7 Q. What would be timing of the calculation?
8 Would it be -- is it monthly? Quarterly? Or annual
9 basis?

10 A. I would assume that it's going to be an
11 annual basis. You know, for example, let's say we
12 decide it's the calendar year 2020. You know,
13 there's -- an amount has been established, the amount
14 of claims that we're going to be recovering in this
15 case. It's 201,000 from Feasel Exhibit 6-1-B. So
16 that's what we're earning on for this particular year.
17 And then my understanding is, you know, once we
18 establish the time frame, let's say it's the calendar
19 year 2020, we'll look at those numbers for the calendar
20 year and true them up versus what's being earned in
21 the -- in rates.

22 Now, again, I'm using that as an example. I
23 don't know exactly what that would be. It probably
24 would be the 12 months beginning with the rate order.

1 But again, I think there's still some details such as
2 that to be ironed out. But whatever 12-month period
3 would be established, we look at the actual claims
4 paid, compare that to the five-year average that we're
5 earning on, and that's what the basis for the
6 50 percent true-up will be.

7 We're earning on 201 if the number comes in
8 150, so we would basically have a \$25,000 true-up.
9 Again, the exact time frame I think still needs to be
10 ironed out. At least that's my understanding. But
11 whatever period we determine, we'll look at the totals,
12 the actual claims we're earning on, and that would be
13 the basis for the adjustment.

14 Q. All right. Will the entire difference
15 between the actual claims and the five-year average be
16 recorded to the deferred account, or only 50 percent of
17 the difference you expect to receive rate recovery in
18 the future?

19 A. I would assume just the half. Just the
20 portion that we expect to either recover or pay on,
21 because it could go either way.

22 Q. All right. So only the 50 percent?

23 A. That's my understanding. Again,
24 conceptually, you know, we've agreed on the concept.

1 There's still some details to iron out, and obviously
2 the Company will do whatever is deemed to be -- you
3 know, whatever needs to be done. That's just my
4 understanding of how it will probably begin.

5 Q. All right. Thank you. And then on page 11
6 of your prefiled testimony, you propose the following
7 true-up methodology. You say if there -- you propose
8 that if there's an excess balance, which would be a
9 liability, or shortfall, which would be the asset,
10 existing at the end of the next test year, that balance
11 will be divided by two and applied to the base level
12 annual claims insurance recovery amount. This method
13 will be the recovery approach for all Aqua rate cases
14 going forward.

15 Is this the true-up method agreed to by the
16 stipulating parties in the settlement, or will the
17 true-up method be determined in a future proceeding
18 before the Commission?

19 A. I believe, fundamentally, that is what we
20 agreed upon.

21 Q. So, in that paragraph ZZ that I mentioned
22 earlier, on page 13, it doesn't expressly state the
23 true-up method. Is there a reason for that or anything
24 else that you can add about that?

1 A. Again, other than the fact that we still have
2 some theoretically minor details to iron out. Again,
3 once we establish the process, it will be easy enough
4 to administer. I just think there's still -- I just
5 think there's still a few details to iron out on that.
6 But, conceptually, what I described is what will
7 happen, just a matter of exactly what time frame. And
8 what time frame -- we're going to be looking at and
9 what time frame when we do that.

10 Q. Okay. Thank you.

11 COMMISSIONER BROWN-BLAND: Are there any
12 other questions from the commissioners?

13 (No response.)

14 COMMISSIONER BROWN-BLAND: All right.
15 Questions on the Commission's questions?

16 MR. BENNINK: No questions.

17 MR. GRANTMYRE: Public Staff, no
18 questions.

19 COMMISSIONER BROWN-BLAND: And AG?

20 MS. TOWNSEND: AG, no questions. Thank
21 you.

22 (Reporter interruption due to feedback.)

23 MR. BENNINK: I could offer perhaps one
24 statement that would clarify, and that is that this

1 was a part of the settlement that was reached very
2 late in the process, and so there has been no real
3 discussion. I don't think that -- I think the
4 Public Staff would agree with that, as to the
5 methodology to be followed.

6 MR. GRANTMYRE: Public Staff would agree
7 to that.

8 COMMISSIONER BROWN-BLAND: All right.
9 Thank you, gentlemen. There being no further
10 questions for witness Gearhart, I believe his
11 testimony is all in now, so.

12 MR. BENNINK: I would move his exhibits
13 into evidence, unless that's already been allowed.
14 It may have.

15 COMMISSIONER BROWN-BLAND: I think we do
16 need to move them in. So without objection, the
17 prefilled exhibits of witness Gearhart will be
18 received into evidence at this time, and they will
19 remain identified as they were marked when
20 prefilled.

21 (Gearhart Rebuttal Exhibits 1 and 2 were
22 admitted into evidence.)

23 COMMISSIONER BROWN-BLAND: All right.
24 We have come right to the end of our day, perfect

1 timing. We will -- Mr. Gearhart, you may, sort of,
2 in the figurative sense also step down. You're
3 excused, actually.

4 THE WITNESS: Thank you,
5 Commissioner Brown-Bland.

6 COMMISSIONER BROWN-BLAND: You're
7 welcome. And we will come back -- I'm trying to
8 remember if I had a cleanup item, but I don't
9 recall right now, so I'll think of it in the
10 morning. So we will come back and be on the record
11 at 9:00 tomorrow when we will begin with -- I
12 believe, witness Thill is who the Company plans to
13 call next; am I correct?

14 MS. SANFORD: That's correct.

15 COMMISSIONER BROWN-BLAND: All right.
16 Well, thank you all for your time, attention, and
17 patience, and we will stand in recess.

18 (The hearing was adjourned at 3:57 p.m.
19 and set to reconvene at 9:00 a.m. on
20 Thursday, July 9, 2020.)


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CERTIFICATE OF REPORTER

STATE OF NORTH CAROLINA)
COUNTY OF WAKE)

I, Joann Bunze, RPR, the officer before whom the foregoing hearing was taken, do hereby certify that the witnesses whose testimony appear in the foregoing hearing were duly affirmed; that the testimony of said witnesses were taken by me to the best of my ability and thereafter reduced to typewriting under my direction; that I am neither counsel for, related to, nor employed by any of the parties to the action in which this hearing was taken, and further that I am not a relative or employee of any attorney or counsel employed by the parties thereto, nor financially or otherwise interested in the outcome of the action.

This the 12th day of July, 2020.



JOANN BUNZE, RPR

Notary Public #200707300112

