

1 PLACE: Via WebEx Videoconference  
2 DATE: Friday, July 10, 2020  
3 DOCKET NO.: W-218, Sub 526  
4 TIME IN SESSION: 9:00 a.m. to 10:41 a.m.  
5 BEFORE: Commissioner ToNola T. Brown-Bland, Presiding  
6 Chair Charlotte A. Mitchell  
7 Commissioner Lyons Gray  
8 Commissioner Daniel G. Clodfelter  
9 Commissioner Kimberly W. Duffley  
10 Commissioner Jeffrey A. Hughes  
11 Commissioner Floyd B. McKissick, Jr.  
12

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

20 VOLUME 6  
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1 P R O C E E D I N G S

2 COMMISSIONER BROWN-BLAND: Let's go back on the  
3 record. And as a technical matter, just a cleanup from  
4 yesterday, Mr. Junis, you are excused.

5 All right. So we're ready to get started this  
6 morning. I think we are still with the Company.

7 MR. BENNINK: All right. Aqua calls Ed Thill  
8 to present his rebuttal testimony.

9 COMMISSIONER BROWN-BLAND: All right. Mr.  
10 Thill, you've already been affirmed, so you're in.

11 EDWARD THILL; Having previously been affirmed,  
12 Testified as follows:

13 DIRECT EXAMINATION BY MR. BENNINK:

14 Q Mr. Thill, did you file 66 pages of rebuttal  
15 testimony and full Rebuttal Exhibits 1 through 9 with the  
16 Commission?

17 A I did.

18 Q Do you have any changes or corrections to make  
19 to that testimony?

20 A I do have one correction to that. On page 25,  
21 the original draft that I believe starts on line 9 spoke  
22 about the current rates or our current distribution  
23 between the base facility charge and usage charge being  
24 40 to 60. That's a generalization. As indicated in the

1 -- my direct testimony, there's actually some subtle  
2 differences between the three different rate entities.  
3 Aqua North Carolina is at 40:60, Brookwood is at 41:59,  
4 and Fairways was at 44:56.

5 Q And is that the only change you have to your  
6 prefiled rebuttal testimony?

7 A It is.

8 Q If you were asked the same questions today as  
9 they appear in your rebuttal testimony, as revised this  
10 morning, would your answers be the same?

11 A Yes, they would.

12 MR. BENNINK: Commissioner Brown-Bland, I'm  
13 going to ask Mr. Thill to give his summary now, but at  
14 the conclusion of that, Ms. Sanford has a request that  
15 she would like to make of the Chair and the Commission,  
16 but we'll go ahead with the summary.

17 Q Mr. Thill, would you proceed with the summary  
18 of your testimony?

19 COMMISSIONER BROWN-BLAND: Mr. Bennink, are you  
20 going to move that testimony yet?

21 MR. BENNINK: I'm sorry. Yes. I would like to  
22 move into the record Mr. Thill's rebuttal testimony and  
23 ask that his Rebuttal Exhibits 1 through 9 be identified  
24 as marked.

1                   COMMISSIONER BROWN-BLAND: All right. That  
2 motion will be allowed, and Mr. Thill's prefiled rebuttal  
3 testimony will be received into evidence as if given  
4 orally from the witness stand. The exhibits are  
5 identified as they were premarked.

6                   (Whereupon, the prefiled rebuttal  
7 testimony, as revised, was copied  
8 into the record as if given orally  
9 from the stand.)

10                  (Whereupon, Thill Rebuttal Exhibits  
11 1, 2, 3, 4, Revised Thill Rebuttal  
12 Exhibit 5, Thill Rebuttal Exhibits 6,  
13 7, 8, and 9 were identified as  
14 premarked.)

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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  
**EDWARD THILL**  
ON BEHALF OF  
AQUA NORTH CAROLINA, INC.

June 12, 2020

1

1 **Q. HAVE YOU TESTIFIED PREVIOUSLY IN THIS PROCEEDING?**

2 A. Yes, I provided Direct Testimony filed on December 31, 2019.

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

4 A. I write to rebut the testimony of certain Public Staff witnesses, on certain  
5 specified positions and adjustments as discussed below.

6 **1. CONSERVATION PILOT PROGRAM**

7 **Q. PLEASE DESCRIBE THE PURPOSE OF THIS SECTION OF YOUR**  
8 **TESTIMONY.**

9 A. My testimony rebuts the testimony of Public Staff Witness Junis concerning  
10 the appropriateness in concept and design of the Conservation Pilot  
11 Program proposed by Aqua.

12 **Q. CAN YOU BRIEFLY SUMMARIZE THE ISSUE THE COMPANY IS**  
13 **TRYING TO ADDRESS THROUGH THE PROPOSED**  
14 **CONSERVATION PILOT PROGRAM?**

15 A. As described in Witness Junis' testimony, on March 20, 2019, the  
16 Commission issued an Order Establishing Generic Proceeding and  
17 Requiring Comments in Docket No. W-100, Sub 59 (W-100, Sub 59, Order).  
18 The Order made the Public Staff, CWSNC, and Aqua parties to the  
19 proceeding and required the parties to file initial comments to include "a  
20 discussion of rate design proposals that may better achieve revenue  
21 sufficiency and stability while also sending appropriate efficiency and  
22 conservation signals to consumers." Aqua's proposed Conservation Pilot

Program is a direct response to the Commission's goals as stated in that Docket.

**Q. WHAT ARE THE PUBLIC STAFF'S CONCERNS REGARDING THE COMPANY'S PROPOSED CONSERVATION PILOT PROGRAM?**

A. Public Staff witness Junis expresses his concerns as follows<sup>1</sup>:

The Public Staff has concerns about the practicability, fairness, and value of the proposed pilot program. While well-designed inclining block rates can effectively promote conservation, the Public Staff has identified the following concerns with the Company's proposed pilot program:

1) the pilot is a limited and unrepresentative sample of residential customers,

2) would not "provide meaningful results that we might extrapolate across the Company's full customer base in future rate design considerations" as the Company claims,

3) reverts to ratemaking with system-specific rates as opposed to uniform rates,

4) ignores the overlapping purpose of House Bill 529 and Commission Rules R7-40 and R10-27,

5) the potential benefit(s) of the program may be outweighed by the valuable personnel resources of the Company, Public Staff, and Commission required to implement and track the pilot, and

6) nearly guarantees service revenues, thus reducing risk.

In addition, singling out groups of customers would be discriminatory and potentially prejudicial if those customers' bills increased significantly under the inclining block rates in comparison to other customers charged uniform usage rates, or vice versa for low usage customers.

**Q. PLEASE RESPOND TO EACH OF THE CONCERNS EXPRESSED BY THE PUBLIC STAFF.**

A. Certainly. The first two concerns expressed by Witness Junis are:

**1) The pilot is a limited and unrepresentative sample of residential customers.**

<sup>1</sup> Page 11, lines 3-21, Testimony of Public Staff witnesses Charles M. Junis, filed in Docket No. W-218, Sub 526, on May 26, 2020.

1 **2) The pilot would not “provide meaningful results that we might**  
2 **extrapolate across the Company’s full customer base in future**  
3 **rate design considerations” as the Company claims.**

4 Because the Fairways Water system is one large system in its own  
5 rate division, the entirety of that rate entity is included in the proposed  
6 pilot and, therefore, the Public Staff’s concern regarding limitation and  
7 reasonable representation is not relevant for that portion of the pilot.  
8 Concerning the four systems in the Aqua Uniform Water rate division  
9 pilot, Witness Junis states in reference to Thill Revised Exhibit 3:  
10 “From this table, it is clear that these are above average or high-usage  
11 systems that are not representative of uniform water residential  
12 customers.”<sup>2</sup> Staff’s comment seems to imply that conservation  
13 programs should be equally focused on both high-usage and low-  
14 usage systems. Introducing a block structure for systems with  
15 consumption below the block limits provides no information on the  
16 cause-and-effect relationship of pricing and conservation.  
17 Additionally, conservation-inducing pricing for low users places a  
18 greater economic burden on those who can least afford it. These  
19 households are already likely to have minimal discretionary usage and  
20 are therefore less likely to experience any financial benefit of  
21 conservation. Alternatively, Aqua’s conservation pilot is intended to

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<sup>2</sup> Page 12, lines 17-19, Testimony of Charles Junis

1 affect the discretionary users that are more prevalent in the high-usage  
2 systems.

3 The largest proposed participant system in the pilot is the Bayleaf  
4 master system in Wake County, serving approximately  
5 6,000 households. Although that system would appropriately be  
6 deemed a high-usage system with average usage of over  
7 7,300 gallons per month (gpm), the customer base is not a  
8 homogenous group of high-consumption households. Thill Revised  
9 Exhibit 3 introduces the concept of a volatility ratio<sup>3</sup> that attempts to  
10 identify the magnitude of discretionary consumption in each  
11 household. The Exhibit shows that, while 26% of Bayleaf users have  
12 significant volatility (defined as having a volatility ratio greater than  
13 4.0), only a slightly lesser 20% of that system's users have minimal  
14 volatility (ratio of less than 1.5). To give perspective to that measure,  
15 if we assume solely for purposes of this exercise that the average  
16 household uses 4,000 gpm on a non-discretionary basis, the low  
17 volatility user might spike to 6,000 gpm in a given period while the high  
18 volatility users would spike to 16,000 gpm or more. The volatility ratio  
19 exposes those customers with the greatest capacity for conservation,  
20 as evidenced by their own consumption, and are the target of this

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<sup>3</sup> Volatility ratio is defined in Thill Revised Exhibit 3 as [Consumption in Customer's 2<sup>nd</sup> Highest Usage Month / Consumption in Customer's 2<sup>nd</sup> Lowest Usage Month]. The 2<sup>nd</sup> highest and lowest months were selected in order to minimize the impact of potential anomalies in the billing data (billing errors, leaks, and other adjustments).

1 conservation pilot. Of the full year population of customers, 19% had  
2 low volatility and therefore low discretionary consumption. This group  
3 would be the primary benefactor of the initial conservation rates as  
4 they have a lower than average consumption pattern and would  
5 therefore benefit from the reduced volumetric cost of Block 1  
6 consumption with limited exposure to increases in Blocks 2-4.

7 Witness Junis identifies the pilot as being limited, but that is the very  
8 nature of a pilot. Junis Exhibit 7 shows total measured monthly bills  
9 for Aqua Uniform Water customers during the test year of 745,138.  
10 Thill Revised Exhibit 3 shows total test-year bills for those same Aqua  
11 customers included in the pilot as 76,152, excluding Fairways  
12 customers at The Cape. Whereas any pilot is inherently limited,  
13 Aqua's proposed pilot covers 10% of Aqua Uniform Water and 100%  
14 of Fairways Water residential customers. This level of coverage,  
15 particularly in areas of high consumption, should provide worthwhile data  
16 on the effectiveness of the proposed design and valuable customer  
17 behavior information that can be used to refine the rate structure and  
18 apply it to the larger customer population in future cases.

19 **3) The pilot reverts to ratemaking with system-specific rates as**  
20 **opposed to uniform rates.**

21 This objection by the Public Staff would preclude any pilot program.  
22 As noted in my Direct Testimony, each of the seven largest cities in North  
23 Carolina uses an inclining block structure, and each is vastly different from

1 the others. In applying a conservation rate to realize a static revenue  
2 requirement, higher consumption customers will subsidize the cost of lower  
3 consumption users. The average revenue requirement calculated to be  
4 realized from the entire population of "piloted" communities is calculated to  
5 be the same as would be realized across non-pilot communities. There is  
6 no singular "correct" model and Aqua believes that both customers and the  
7 utility are better served by testing this concept on a representative few  
8 systems before exposing the entire customer base to a drastic change in  
9 rate structure with many unknown consequences.

10 **4) The pilot ignores the overlapping purpose of House Bill 529 and**  
11 **Commission Rules R7-40 and R10-27.**

12 Contrary to this statement, the pilot program embraces House Bill 529  
13 by making a condition of its pilot that a revenue reconciliation process  
14 also be implemented. A program that intentionally reduces  
15 consumption but does not factor that reduction (repression) into  
16 ratemaking assigns the full cost of conservation to the utility and  
17 directly compromises its opportunity to achieve the  
18 Commission-authorized return. On the other hand, a program that  
19 assigns a repression element, an unknowable variable, without a  
20 reconciliation feature adds significant risk to both customers and the  
21 utility and is in the interest of neither.

22 **5) The potential benefit(s) of the program may be outweighed by the**  
23 **valuable personnel resources of the Company, Public Staff, and**  
24 **Commission required to implement and track the pilot.**

1 Again, this objection by the Public Staff would seem to preclude any  
2 pilot program. Witness Junis states<sup>4</sup>:

3 The potential benefits are subjective based on the limited supporting  
4 documentation referred to above. The Company appears to describe  
5 operations in crises due to high volume users on one hand, yet on the  
6 other hand, fails to meet its burden to describe how the pilot may result  
7 in relief to these systems or an avoidance of capital expenditures.

8 This argument seems to require definitive quantification of savings that  
9 might be had from a pilot that has never been implemented, essentially  
10 requiring past proof of future benefits. Aqua approached its pilot  
11 assuming that certain “truths” already exist regarding the benefits that  
12 reduced consumption might create, as well as the impact that a  
13 properly constructed block structure might have on conservation.  
14 Those “truths” would seem to be echoed in the following Comments of  
15 the Public Staff filed on May 22, 2019, in Docket No. W-100, Sub 59<sup>5</sup>:

16 Decreased usage is a decrease in demand. In addition to the revenue  
17 and short-term variable expense effects, decreases in demand can  
18 delay or even eliminate the need to undertake capital-intensive projects  
19 such as the expansion of plant capacity. For the larger privately-owned  
20 public utilities, this can add up to thousands or possibly millions of dollars  
21 of savings that would otherwise be booked. (Pages 2-3)

22 ... decreased usage results in decreased pumping which, in turn,  
23 increases the longevity and reliability of wells. (Page 3)

24 Due to higher prices for greater consumption, increasing block rates also  
25 send a strong conservation signal to customers. During times when a  
26 system’s capacity may be limited, such as during periods of increased  
27 irrigation, the demand increase is captured by a higher cost for above

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<sup>4</sup> Page 13, lines 6-12, Testimony of Charles Junis

<sup>5</sup> Retrieved from:

<https://starw1.ncuc.net/NCUC/ViewFile.aspx?Id=39673075-28db-4564-a916-322180eee462>



1 average water usage. This increased cost may encourage customers  
2 to focus on conservation measures. (Page 8)

3 When the demand exceeds the well pumping supply and effective  
4 storage capacity, the customers can experience low pressure,  
5 degradation of water quality, and/or a complete outage. (Page 27)

6 Based on the foregoing review of rate structures, and based on its  
7 experience and expertise, the Public Staff is of the opinion that, to best  
8 balance the objectives of sufficient and stable revenue for the utility with  
9 appropriate signals to consumers that support and encourage efficiency  
10 and conservation, water and wastewater rates should be volumetric with  
11 one or more increasing blocks. (Page 31)

12  
13 It is important to note that the conservation pilot is proposed in response to  
14 the Commission's request of Docket No. W-100, Sub 59. Benefits of a  
15 block structure as opined by the Public Staff in the quoted passages  
16 include decreased capital costs, better access to water, reduced  
17 pressure concerns, and better quality. Each of these benefits inures  
18 to the customer. The utility will hopefully experience operational relief,  
19 which was a key component of our system selection, but that is still a  
20 benefit to the customer. The economic impact to the utility is actually  
21 a reduction of future capital investment and therefore a reduction of  
22 future earnings.

23 That said, Aqua is supportive of the Commission's conservation  
24 initiative and appreciates its recognition that conservation brings with  
25 it challenges to the sufficiency and stability of the utility's revenue. The  
26 Company has attempted to design its pilot in a manner that  
27 encourages conservation without sacrificing its own authorized

1 earnings. To that end, the Company has assumed price elasticity  
2 using information gathered from the 2009 report of the UNC School of  
3 Government Environmental Finance Center required by NCUC Docket  
4 No. W-218, Sub 274 and Docket No. W-224, Sub 15<sup>6</sup>:

5 "... we assumed a price elasticity of -0.3, meaning that for every 10%  
6 increase in the total bill that the customer receives, the customer  
7 responds by decreasing their water consumption by 3%. This elasticity  
8 is based on the most recent and focused analysis on water price  
9 elasticity in North Carolina."

10 Witness Junis objects to the use of that elasticity measure since it "is  
11 not specific to Aqua's customer base"<sup>7</sup> even as Aqua's operations span  
12 51 counties across all of North Carolina. Witness Junis' challenge  
13 would, again, essentially require past proof of future events. However,  
14 Witness Junis then seems to soften his stance somewhat in stating:

15 "While a price elasticity of -0.3 may be expected on average, the  
16 projective repression applied to the customer consumption data is  
17 in addition to the Company's Conservation Normalization Factor.  
18 The Company's proposed factor most certainly includes some degree of  
19 price elasticity impact as Aqua has increased its rates three times during  
20 the analysis period of three-year averages from October 1, 2008, to  
21 September 30, 2019, (updated to April 1, 2009, to March 31, 2020).<sup>8</sup>"

22 This statement conflates two independent measures. The  
23 Conservation Normalization Factor measures the reduced  
24 consumption experienced in the past, independent of the reason for

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<sup>6</sup> Page 7, UNC School of Government Environmental Finance Center. (2009) "Report on the Impact of Switching to an Increasing Block Rate Structure for Water Customers and/or Uniform Volumetric Rates for Wastewater Customers of Aqua North Carolina, Inc.", filed in Docket No. W-218, Sub 274 on November 24, 2009. Retrieved from:

<https://starw1.ncuc.net/NCUC/ViewFile.aspx?Id=cab2e92f-7246-4c49-9036-60efd00874fb>

<sup>7</sup> Page 13, lines 15-16, Testimony of Charles Junis

<sup>8</sup> Page 13, line 18 to page 14, line 4, Testimony of Charles Junis

1 that reduction. Repression is a research-based projection of the  
2 amount that future consumption is likely to decline directly as a  
3 consequence of a change in rates. Without providing justification as  
4 to how these concerns, individually or in combination, would yield such  
5 a result, Witness Junis concludes<sup>9</sup>:

6 The Company's combination of the price elasticity, Conservation  
7 Normalization Factor, and failure to take into account socio-economic  
8 demographics is likely to result in the overestimation of the expected  
9 consumption reduction.

10 Regardless of the validity of Witness Junis' argument either in totality  
11 or of any component, his conclusion of an overestimation of  
12 consumption reduction could prove true. Such a statement should not  
13 be regarded as a softening of the Company's position but rather an  
14 acknowledgement that the modeled repression of -0.3 most certainly  
15 **will not** exactly be experienced. We don't know if it will be more or  
16 less, but -0.3 is the best estimate we have today of an unknowable  
17 future event. As a result, actualized repression **will** result in the  
18 Company receiving more or less revenue than intended by the  
19 Commission – unless a reconciliation measure is adopted in concert  
20 with the pilot as discussed earlier.

21 **6) The pilot nearly guarantees service revenues, thus reducing risk.**

22 While Aqua has conditioned its conservation pilot program on the  
23 implementation of a related revenue reconciliation process, that

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<sup>9</sup> Page 14, lines 6-10, Testimony of Charles Junis

1 reconciliation acts as a safeguard for both customers and the utility.  
2 Aqua's intent within this program design is to encourage conservation  
3 without sacrificing its own opportunity to earn its authorized earnings.  
4 Implementing a pilot rate design that fully satisfies the totality of the  
5 Public Staff's objections would result in a design encompassing 100%  
6 of Aqua's customer base, with no elasticity assumption and no revenue  
7 reconciliation. And Staff's concern is that Aqua might want to reduce  
8 risk?

9 *{unnumbered objection from Witness Junis' testimony}* **In addition,**  
10 **singling out groups of customers would be discriminatory and**  
11 **potentially prejudicial if those customers' bills increased significantly**  
12 **under the inclining block rates in comparison to other customers**  
13 **charged uniform usage rates, or vice versa for low usage customers.**

14 This standard offered by Witness Junis, similar to other objections raised,  
15 would preclude any effective pilot from implementation. All pilots, by  
16 definition, only apply to a subset of the customer base, while a pilot must  
17 necessarily create significant increases/decreases to be considered  
18 effective.

19 Note also that any change to rate structure will necessarily create  
20 "winners" and "losers", some intentionally and some by association.  
21 This objection is another argument in favor of the Company's revenue  
22 reconciliation proposal since it specifically ensures that any excess or  
23 deficit in revenue generated by the pilot is returned to or collected from  
24 only those customers that contributed to that excess or deficit.

1 **Q. PLEASE SUMMARIZE THE COMPANY'S POSITION ON ITS**  
2 **PROPOSED CONSERVATION PILOT PROGRAM AND ANY**  
3 **CONDITIONS TO THAT PROGRAM.**

4 A. The Company has proposed its pilot in response to the Commission's  
5 interest in water efficiency and conservation. The pilot covers a  
6 representative group of users in mostly high-volume, operationally  
7 challenged systems that have significant opportunity for benefit and  
8 where consumer behavior can best be evaluated in terms of the  
9 effectiveness of conservation price signals. The proposed revenue  
10 reconciliation process is an integral element of this pilot program  
11 providing a critical safeguard for both the customers and the Company.  
12 If the Commission determines that the revenue reconciliation process  
13 as proposed should not be approved, the Company would respectfully  
14 and regrettably withdraw its proposed conservation pilot.

15 **2. BILLING ANALYSIS**

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

17 A. My testimony rebuts certain portions of testimony provided by Witness Junis  
18 concerning topics within Billing Analysis.

19 **Q. WHAT OBSERVATION HAS THE PUBLIC STAFF MADE**  
20 **REGARDING CONSUMPTION TRENDS?**

21 A. Witness Junis provides a host of charts and graphs in Junis Exhibit 2  
22 in an effort to support the validity of the conclusion reached in the 2016

1 Environmental Finance Center (“EFC”) Study<sup>10</sup> that consumption of  
2 Aqua water customers has stabilized close to an average of 5,000  
3 gallons per month. He opines that “The average monthly consumption  
4 each year may fluctuate above or below the three-year average, however,  
5 the band of variation has narrowed significantly in recent years.<sup>11</sup>” And  
6 further, “From the updated data on a consolidated basis, there has been a  
7 clear leveling or stabilizing of average monthly consumption.<sup>12</sup>”

8 **Q. IN WHAT CONTEXT IS THIS DISCUSSION OF STABILITY?**

9 A. The Company has suggested that the use of a three-year average in  
10 determining consumption should be supplemented by a Conservation  
11 Normalization Factor; that is, an adjustment to reflect a continuing  
12 downward trend in rates of customer consumption. The Public Staff  
13 has countered that the downward trend has stabilized and therefore  
14 no adjustment is warranted.

15 **Q. WHAT IS WITNESS JUNIS’ CONCLUSION REGARDING AQUA’S**  
16 **CONSERVATION NORMALIZATION FACTOR?**

17 A. Witness Junis concludes:

18 The average consumption during the years 2008 through 2012 were  
19 higher and trended downward. However, that trend is no longer  
20 occurring and, therefore, using it to calculate the Conservation  
21 Normalization Factor would underestimate average monthly

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<sup>10</sup> Page 58, UNC School of Government Environmental Finance Center. (2016) “Studies of Volumetric Wastewater Rate Structures and a Consumption Adjustment Mechanism for Water Rates of Aqua North Carolina, Inc.”, filed in Docket No. W-218, Sub 363A on March 31, 2016. Retrieved from: <https://starw1.ncuc.net/NCUC/ViewFile.aspx?Id=a7fd9d58-46ed-425f-9298-c4419f319a1f>

<sup>11</sup> Page 22, lines 11-14, Direct Testimony of Public Staff witness Charles Junis filed in Docket No. W-218, Sub 526, on May 26, 2020.

<sup>12</sup> Page 24, lines 20-22, Testimony of Charles Junis

1 consumption per customer. This is especially important when the  
2 number of customers and the total consumption continues to increase  
3 and, as concluded by the EFC, that growth in revenues outpaces the  
4 associated variable expenses.<sup>13</sup>

5 Two points stand out for debate from this statement: 1) since the trend  
6 is no longer occurring, the Company's calculation would underestimate  
7 average monthly consumption, and 2) due to growth in the number of  
8 customers, total consumption continues to increase and outpaces the  
9 associated variable expenses.

10 **Q. DOES AQUA AGREE WITH THE STAFF'S OBSERVATION**  
11 **CONCERNING THE LACK OF A CURRENT TREND?**

12 A. The Company agrees that a narrowing of the band of variation has  
13 occurred, but true stabilization would imply essentially no volatility at  
14 all. The Company has acknowledged, as Witness Junis states, that  
15 the three-year average advocated by the Public Staff accomplishes a  
16 smoothing of year-to-year consumption patterns impacted by weather.  
17 If we assume that the three-year average is effective in this purpose,  
18 the average change from year-to-year should be fairly minimal and  
19 equally move in positive and negative directions. In fact though, as  
20 Junis Exhibit 2, page 2 shows, 7 of the 8 changes in the most recent  
21 consolidated three-year averages were decreases. When we view the  
22 data at the rate entity level, 19 of 24 changes (79%) were negative,  
23 including every measurement for the Brookwood entity. Aqua chose

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<sup>13</sup> Page 28, lines 4-11, Testimony of Charles Junis

1 the periods presented in Junis Exhibit 2 as that data shows the clear  
2 and convincing trend that has plagued the Company for years. As  
3 noted, Aqua agrees that a narrowing has occurred, but a narrowing  
4 does not mean the trend is gone. If we were to tighten our view to just  
5 the change over the last three years, we would see two (2) declines  
6 and one neutral experience for the consolidated operations, and seven  
7 (7) of nine (9) declines at the rate entity level.

8 Witness Junis discusses the effect weather can have on a single year,  
9 such as the 12-month period ending March 31, 2019. While the three-  
10 year average smooths that out over time, a particularly wet or dry year  
11 will skew the average of each calculation for three years, hopefully  
12 offset by an unusual weather pattern with the opposite impact on  
13 consumption. With that in mind, an alternative view of the ongoing  
14 trend could be to look at the absence or presence of stability in the  
15 three-year averages in three-year intervals. Analyzing the data in this  
16 manner removes the multi-year impact of anomalies and, using figures  
17 from Junis Exhibit 2, shows continued volatility as calculated in Thill  
18 Table 1.



**Thill Table 1**

Entity	3/31/14	3/31/17	Change	Annual	3/31/20	Change	Annual
All	5,338	5,160	-3.33%	-1.11%	5,036	-2.40%	-0.80%
ANC	5,068	4,961	-2.11	-0.70%	4,870	-1.83%	-0.61%
Brookwood	5,844	5,484	-6.16	-2.05%	5,083	-7.31%	-2.44%
Fairways	7,582	6,994	-7.76	-2.59%	7,139	+2.07%	+0.69%

As Thill Table 1 shows, a consolidated decrease from 5,160 gpm at 3/31/17 to 5,036 gpm at 3/31/20 is a change of -2.40% over three years, or -0.80% per year on a simple average. By many standards, that could be termed stable. For the Company however, that 0.80% difference comes at a real dollar cost as we will discuss shortly.

When viewed at the rate entity level, consumption in the Brookwood entity is certainly not stable. Witness Junis opines that “It would be reasonable to expect the Brookwood Water average monthly consumption to eventually flatten and stabilize ...”<sup>14</sup> When responding to a Data Request for further explanation for that conclusion, Witness Junis responded that “consumption cannot decline in perpetuity as there is some minimum level of non-discretionary usage<sup>15</sup>.” On that point we can agree. There is a bottom out there somewhere but there is no evidence we are there. In fact, even if we were at that bottom today, we are still using inflated historical consumption data to

<sup>14</sup> Page 24, lines 17-19, Testimony of Charles Junis

<sup>15</sup> Public Staff response to Aqua Data Request 7, Question 7a, included here as Thill Rebuttal Exhibit 4

1 determine today's rates. The chart for Brookwood Water presented in  
2 Junis Exhibit 2, page 4, clearly shows the decline. Rates are proposed  
3 by the Public Staff to be set using the three-year historical average  
4 which essentially moves and utilizes consumption levels from eighteen  
5 months earlier on that chart (the mid-point of the three years used in  
6 the average). Meanwhile, the Public Staff has proposed to increase  
7 the cost to the Company of any further consumption declines.

8 **Q. WHAT IS MEANT BY YOUR STATEMENT THAT THE PUBLIC**  
9 **STAFF IS PROPOSING TO INCREASE THAT COST?**

10 A. Thill Rebuttal Exhibit 1 provides a summary of the Public Staff's rate  
11 design. This Exhibit shows proposed service revenues in the amount  
12 of \$61.9 million. Comprising that amount is \$43.8 million for water  
13 revenues using a 30/70 fixed-to-variable ratio, and \$18.1 million of  
14 sewer revenues including \$10.7 million which has been modeled by  
15 the Public Staff using a 60/40 fixed-to-variable ratio. The ratios  
16 approved by the Commission in the Company's Sub 497 rate case  
17 were 40/60 for water and 100/0 (fully fixed) for that comparable subset  
18 of sewer customers. Thill Rebuttal Exhibit 2 shows the impact of these  
19 ratio adjustments would be to move an additional \$8.6 million, or 16%  
20 of the revenue subject to rate design, from fixed to variable. These  
21 ratio adjustments are being done with the express intent of  
22 encouraging conservation, which reduces revenue and adds volatility

1 to the Company's revenue stream. Staff's assessment of stability is  
2 not necessarily wrong, it is just measured against a different yardstick  
3 than the Company's. Staff is focused on percentages while the  
4 Company focuses on real economic impact.

5 **Q. HAS THE COMPANY QUANTIFIED THE "REAL ECONOMIC**  
6 **IMPACT" SUGGESTED IN THE PRIOR ANSWER?**

7 A. The Company's yardstick of economic impact measures against the  
8 \$34.8 million of variable revenue (see Thill Rebuttal Exhibit 1) tied  
9 directly to consumption, or 56% of the Staff's proposed \$61.9 million.  
10 A 0.80% decline as discussed earlier may be small enough to be  
11 considered stable by some, including witness Junis, but it calculates  
12 to a \$278,000 loss of revenue by the utility when applied to the variable  
13 component of the Company's revenue stream. Later in this testimony,  
14 I address the Public Staff's use of the term "financial windfall" in  
15 reference to \$4,000. Here we have the genesis of a \$278,000 potential  
16 revenue deficit, yet it seems that the Staff would have the Company  
17 accept that as "close enough."

18 **Q. WHAT IS THE COMPANY'S RESPONSE TO STAFF'S CONTENTION**  
19 **THAT DUE TO GROWTH IN THE NUMBER OF CUSTOMERS,**  
20 **TOTAL CONSUMPTION CONTINUES TO INCREASE AND**  
21 **OUTPACES THE ASSOCIATED VARIABLE EXPENSES?**

1 A. Aqua has been able to serve more customers, positively impacting the  
2 Company with additional revenue in the short term (until those  
3 customers are included in the next rate case), while producing long-  
4 term benefits to the entire customer base by spreading the Company's  
5 mostly-fixed costs across a wider distribution. Staff's reference to the  
6 outpacing of associated variable expenses is attributed to the EFC  
7 Study. Witness Junis does not provide a specific reference but the  
8 Study's discussion on the impact of growth, at page 10, provides the  
9 following:

10 Expenses would also rise. In the example described in the question, only  
11 short-term variable expenses would rise, plus a small portion of the fixed  
12 expenses (e.g. administrative costs for billing and collections).

13 But the Study continues further on that page:

14 However, customer growth will eventually affect all short-term costs  
15 (fixed and variable) as well as some of the long-term costs.

16 If depreciation, taxes and interest are also factored in (longer-term  
17 costs), the Test Year 2013 total wastewater expenses averaged  
18 \$65.20/bill, canceling out the additional revenues generated from the  
19 new customers.

20 And further still:

21 This analysis, however, does not consider the fact that operating  
22 expenses in the future will likely not be the same as they were in Test  
23 Year 2013. If unit costs for O&M increase (e.g. cost of chemicals and  
24 power increase, salaries increase, etc.), the future costs would be higher  
25 than the averages calculated above.

26 Staff is promoting a top-line-only rationale that the prospective, post-  
27 rate case, event of growth should justify the current practice of ignoring

1 demonstrated and continual deficiencies in the three-year  
2 consumption average, and does so while ignoring comprehensive cost  
3 increases associated with providing services in that prospective  
4 period.

5 **Q. IS THERE ANY INDICATION THAT THE PUBLIC STAFF MIGHT**  
6 **HAVE CONCERNS ABOUT THE FAIR REPRESENTATION OF THE**  
7 **THREE-YEAR AVERAGE AS A PROXY FOR CURRENT**  
8 **CONSUMPTION?**

9 A. Witness Junis has devoted considerable effort to support his  
10 contention that the current measure of the three-year average is a fair  
11 and stable representation of customer consumption. That would imply  
12 a balance that could tip in either direction, which the data shows has  
13 not been the case, even in recent years. But if we were to accept  
14 Witness Junis' conclusion that the three-year average was an  
15 appropriate proxy for current consumption, that would imply that the  
16 measure would reflect an equilibrium between risk and opportunity for  
17 both customers and the utility. Despite that risk equilibrium, the Public  
18 Staff has suggested in this case and prior, that a risk premium  
19 reduction should accompany any consumption adjustment  
20 mechanism. If the risk is truly evenly distributed, the presence or  
21 absence of a consumption adjustment mechanism in a "stable"

consumption environment would have no greater value for the Company than it would for the customers.

**Q. WITNESS JUNIS HAS RECOMMENDED APPLICATION OF CONSUMPTION FACTORS TO SEWER ENTITIES IN CONTRAST TO THE COMMISSION'S DECISION IN THE SUB 497 RATE CASE. DOES AQUA AGREE WITH THIS ADJUSTMENT?**

A. The Company strongly disagrees with the proposed adjustments as being flawed in concept. Witness Junis analyzed the consumption history of a substantial number of customers for whom the ANC and Fairways entities provided both water and sewer services. That analysis produced the figures that follow in Revised Junis Table 4 (Witness Junis provided this revised table when alerted by the Company that certain information originally provided in support of this analysis had contained inconsistencies).

**Revised Junis Table 4**

Rate Entity	Test Year Ending Sep-19	Three-Year Average Ending Mar-20	Consumption Factor
Aqua Water	4.840	4.871	0.65%
Aqua Sewer	5.116	5.004	-2.20%
Brookwood Water	5.035	5.069	0.66%
Fairways Water	7.785	7.151	-8.13%
Fairways Sewer	6.486	6.169	-4.90%

Witness Junis concludes as presented in Revised Junis Table 4 that, for one example, where the three-year average of Fairways customers

1 in the population averaged consumption of 6,169 gallons per month  
2 (“gpm”) and the test year consumption was 6,486 gpm, it is reasonable  
3 to expect consumption to decline to the three-year average (a 4.90%  
4 decline) so variable costs for those sewer entities should likewise be  
5 reduced. Thill Rebuttal Exhibit 3 uses the same data source that  
6 Witness Junis used in calculating the three-year averages in his  
7 Revised Table 4. This Exhibit expands the comparison to a monthly  
8 evaluation of residential customers, as opposed to Witness Junis’  
9 annual calculation. Note that comparable monthly commercial  
10 information was not immediately available but represent only 28% and  
11 2% of the consumption for ANC and Fairways, respectively. For  
12 reference in viewing this Exhibit, the Exhibit’s far-right column labeled  
13 “Consumption Factor” shows a negative factor when the test year  
14 consumption was higher than the three-year average, and if we expect  
15 consumption to revert to the average, the proposal alleges that sewer  
16 flows would see a similar decline and variable expenses should be  
17 adjusted downward accordingly. Positive variances would indicate the  
18 opposite. Witness Junis’ proposition pivots on the concept that an  
19 increase in water consumption necessarily correlates to an increase in  
20 sewer expenses. However, the Exhibit clearly indicates that the  
21 increased water consumption in this population is concentrated in the  
22 summer months, as one would expect. Discretionary water usage in

1 summer months is driven overwhelmingly by irrigation, which goes into  
2 the ground, not the sewer system. To evaluate the non-discretionary  
3 water usage that does flow through the sewer system, the analysis  
4 should focus only on the less-discretionary usage of the winter months  
5 which, as can be seen in the Exhibit, have actually experienced lesser  
6 flows than the average. If we hold to the Public Staff's philosophy that  
7 consumption should return to the three-year average, a better  
8 argument could be made that test-year sewer flows were actually  
9 below average and should be expected to increase, and therefore a  
10 positive adjustment to sewer expenses should be considered. The  
11 Company does not propose such an adjustment at this time but rather  
12 recommends that no consumption adjustment be assigned to sewer  
13 entities in keeping with the decision of the Sub 497 Order.

14 **Q. WITNESS JUNIS HAS CHALLENGED THE COMPANY'S**  
15 **APPLICATION OF GROWTH AND CONSUMPTION FACTORS TO**  
16 **CERTAIN EXPENSE ITEMS. DOES THE COMPANY AGREE WITH**  
17 **THIS ADJUSTMENT?**

18 **A.** Aqua does agree with Staff's adjustment. The Company's intent was to  
19 maintain consistency with the Commission's Sub 497 Order but erroneously  
20 applied growth and consumption factors to purchased water expenses and  
21 purchased wastewater treatment.  
22



### **3. RATE DESIGN**

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

A. The purpose is to rebut certain portions of testimony provided by Witness Junis concerning topics within Rate Design.

**Q. WHAT IS THE CURRENT AVERAGE WATER BILL SERVICE REVENUE RATIO (BASE FACILITY CHARGE vs USAGE CHARGE), WHAT RATIO HAS THE COMPANY REQUESTED, AND WHAT DOES THE PUBLIC STAFF RECOMMEND?**

A. The Sub 497 Order approved a water rate ratio of 40:60 and the Company has requested that no change be made to that ratio. Staff is proposing a shift to 30:70.

**Q. DOES THE COMPANY AGREE WITH THIS SHIFT TO A GREATER VOLUMETRIC RATE?**

A. No. The Company does not agree with the appropriateness of a shift to greater volumetric rates. In proposing this shift, the Staff offers:

The incremental shift to higher volumetric charges sends a price signal that properly promotes efficiency and conservation. As discussed above, the Company's total service revenues continue to increase annually and are expected to outpace the associated variable expenses. In addition, average monthly consumption per customer been shown to be stabilizing. This combination of growth and stabilizing consumption makes it unlikely that the revenue instability and insufficiency the Company warns against will come to pass.<sup>16</sup>

The Company's objections to this rationale exist on several levels:

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<sup>16</sup> Page 34, lines 8-16, Testimony of Charles Junis

- Earlier discussion has already debated whether stabilization has actually occurred;
- If a design is expressly employed to induce efficiency and conservation (i.e. lower consumption), past stability, even as a flawed conclusion, has no relevance in assessing future destabilization;
- As quoted earlier from the EFC study:

Expenses would also rise. In the example described in the question, only short-term variable expenses would rise, plus a small portion of the fixed expenses (e.g. administrative costs for billing and collections).

However, customer growth will eventually affect all short-term costs (fixed and variable) as well as some of the long-term costs.

If depreciation, taxes and interest are also factored in (longer-term costs), the Test Year 2013 total wastewater expenses averaged \$65.20/bill, canceling out the additional revenues generated from the new customers.

Staff's focus on only short-term variable expenses continues to ignore the comprehensive cost of providing service;
- Staff would create further imbalance between the Company's highly fixed expense structure (89% short-term fixed expenses for water entities as determined by the EFC Study<sup>17</sup>) and its mostly variable revenue structure;
- Staff offers, here again, that future revenue deficiencies that are a known and intended consequence of this rate design process

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<sup>17</sup> Page 11

1 should be recovered from future growth, without regard to the  
2 utility's need to cover growth in future expenses incurred fully on  
3 behalf of and for the benefit of its customers. Witness Junis opens  
4 his comment on the Staff's position on water rate design by saying:

5 The Public Staff agrees with the Commission that a balance should  
6 be struck between achieving revenue sufficiency and stability to  
7 ensure quality, reliability, and long-term viability for properly operated  
8 and well-managed utilities on the one hand, and setting fair and  
9 reasonable rates that effectively promote efficiency and conservation  
10 on the other hand.<sup>18</sup>

11 Staff's proposal provides further customer incentive for efficiency and  
12 conservation but serves to exacerbate the Company's current  
13 concerns regarding revenue sufficiency and stability.

14 **Q. DOES THE CURRENT 40/60 RATIO PROVIDE CONSERVATION**  
15 **INCENTIVE AND WOULD A SHIFT TO 30/70 PROVIDE**  
16 **MATERIALLY MORE INCENTIVE?**

17 A. Conservation incentive exists whenever there is a volumetric element  
18 to the rate design, and a shift to a greater volumetric element provides  
19 greater conservation incentive. The materiality of that change really  
20 depends again on your measuring tool. Witness Junis states "For ANC  
21 Water, the present uniform water rate structure provides relatively little  
22 incentive, a bill reduction of 37.6%, for customers to significantly reduce  
23 their usage by 50%.<sup>19</sup>" For the Public Staff, 37.6% is relatively little but 50%

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<sup>18</sup> Page 33, line 22 to page 34, line 4, Testimony of Charles Junis

<sup>19</sup> Page 36, lines 9-11, Testimony of Charles Junis

1 is significant. Witness Junis' proposal, using his proposed 30:70 rate  
2 structure, would move that percentage to 41.2%<sup>20</sup>. The analysis relies  
3 heavily on percentages to discuss extreme changes in consumer behavior.  
4 Staff offers no reason to believe that a typical 10,000 gpm user might have  
5 sufficient discretionary usage to cut their consumption in half. Nor is there  
6 reason to believe, using Junis Table 6, that the same 10,000 gpm customer  
7 might react differently if the incentive to reduce consumption was increased  
8 from the Company's proposed savings of \$29.15 to the Staff's proposal of  
9 \$34.35. Additionally, though Witness Junis presents that this rate design  
10 shift will drive customer conservation, he makes no provision in his rate  
11 design for elasticity and specifically objected to the concept of an elasticity  
12 adjustment in the Company's conservation pilot program. He offers no  
13 safeguard or offset to the Company while intentionally attempting to drive  
14 down consumption creating additional risk for the Company. Staff makes  
15 this proposal while also asking for a 10-basis point risk penalty if a  
16 consumption adjustment mechanism is approved. Missing from the Staff's  
17 discussion on the financial incentive of conservation to the customer  
18 is from where those dollars saved will come? Where is the balance to  
19 sufficiency and stability against the intended conservation, particularly  
20 considering an already unrepresentative 40:60 fixed vs variable rate  
21 structure and a demonstrated pattern of declining consumption?

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<sup>20</sup> Page 36, line 18, Testimony of Charles Junis

1 **Q. WHAT IS THE CURRENT AVERAGE WASTEWATER BILL SERVICE**  
2 **REVENUE RATIO (BASE FACILITY CHARGE:USAGE CHARGE),**  
3 **WHAT HAS THE COMPANY PROPOSED, AND WHAT DOES THE**  
4 **PUBLIC STAFF RECOMMEND?**

5 A. For residential customers: The Sub 497 Order approved a ratio of  
6 100:0 (flat rate) and the Company has requested that no change be  
7 made to that design. Staff is proposing a shift to 60:40 for all  
8 customers that are provided both water and sewer services by the ANC  
9 or Fairways entities, and flat rates for all others.

10 For commercial customers: The Sub 497 Order approved a ratio of  
11 35:65 and the Company has requested that no change be made to that  
12 design. Staff is proposing to increase the ratio to 60:40 to align with  
13 its proposal for residential customers.

14 **Q. DOES THE COMPANY AGREE WITH THIS SHIFT TO A**  
15 **VOLUMETRIC RATE?**

16 A. Emphatically not. The Company does not agree with a shift to  
17 volumetric sewer rates for many of the same reasons expressed earlier  
18 concerning Staff's proposal for a greater volumetric element for water  
19 revenues. Witness Junis recounts in his testimony the genesis and  
20 subsequent history of an EFC study authorized by the Commission  
21 and completed in 2016. No evidence or conclusion is provided from  
22 that study, nor does Witness Junis provide evidence of his own in

1 support of his position. Though it is difficult to rebut an argument not  
2 made, Witness Junis' position could be argued against using some of  
3 his own objections logged earlier in the discussion of the pilot program,  
4 particularly with regard to reversion from uniform to system-specific  
5 rates and the potential for claims of discriminatory practices.

6 Aqua's own objections include many of those raised earlier. The Staff  
7 proposal:

- 8 - Creates further instability and insufficiency in the Company's  
9 revenue stream without safeguards for the utility or ROE  
10 compensation for the added risk;
- 11 - Makes no provision in the rate design for the elasticity that is an  
12 intended consequence of this proposal;
- 13 - Disassociates sewer revenues from sewer expenses since much of  
14 the fluctuation in water revenues is due to irrigation and other  
15 customer behaviors that have no effect on sewer operations;
- 16 - Creates further imbalance between the Company's highly fixed expense  
17 structure (83% short-term fixed expenses for wastewater entities as  
18 determined by the EFC Study<sup>21</sup>) and its current mixed revenue structure.

19 The current imbalance in favor of fixed costs in the sewer entities is more  
20 than offset by the greater imbalance in the (larger) water entities.

21 **Q. ARE THERE ADVANTAGES TO A FLAT RATE STRUCTURE?**

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<sup>21</sup> Page 6 of the EFC Study

1 A. Yes, the EFC Study listed the following benefits of flat-rate billing:

2 Flat-rate (flat-charge) billing is simpler to administer for the utility, and  
3 easier to budget for as a customer in terms of knowing with certainty  
4 what the wastewater charge will be every single month. Customers that  
5 have high water use (or even have a leak) will not be charged an  
6 excessively high volumetric wastewater bill. Flat-rate billing avoids the  
7 difficulty of pricing a volumetric rate, which could create problems if a  
8 portion of the customer base relies on high water use for basic needs  
9 and will therefore face high volumetric wastewater rates. Flat-rate billing  
10 provides a more predictable and stable revenue stream to the utility.<sup>22</sup>

11 **Q. ARE THERE ADVANTAGES TO A METERED STRUCTURE?**

12 A. Yes, there are advantages to metered billing, but in that Staff has not offered  
13 any testimony in support of those advantages, the Company will not seek  
14 to rebut its own position here, particularly as weighed against the many  
15 disadvantages already enumerated.

16 **4. UTILITY PLANT IN SERVICE (“UPIS”)**

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

18 A. To rebut the joint testimony of Public Staff Witnesses Henry and Junis  
19 concerning their review of Utility Plant in Service.

20 **Q. WHAT CONCERN REGARDING UPIS HAS THE PUBLIC STAFF**  
21 **IDENTIFIED IN ITS REVIEW?**

22 A. As recounted in Staff’s testimony at greater length and detail<sup>23</sup>, in  
23 response to Public Staff’s recommendation, the Commission ordered  
24 in the W-218, Sub 274, rate case, a review of and changes to Aqua’s

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<sup>22</sup> Page 8 of the EFC Study

<sup>23</sup> Page 7, line 8 to page 8, line 15, Joint Testimony of Public Staff witnesses Windley E. Henry and Charles M. Junis, filed in Docket No. W-218, Sub 526, on May 26, 2020.

1 accounting procedures. In complying with Ordering Paragraph No. 12  
2 of that Docket, the Company responded as follows<sup>24</sup>:

3 On a monthly basis the Accounting Department sends the Regional  
4 Managers a CWIP report for review, requesting that the Managers notify  
5 Accounting of projects that are complete and in service. Accounting  
6 allows 30 to 60 days for any trailing costs to be charged to these in-  
7 service activity numbers before closing the asset.

8 Regarding that policy, Staff lists among its concerns<sup>25</sup>:

9 This approach would be acceptable to the Public Staff if utilized  
10 consistently and for an overwhelming majority of its construction  
11 work in progress (CWIP) projects. However, based on its review,  
12 the Public Staff has found that this has not been the case. There  
13 are numerous projects that have been unitized by the Company in  
14 the same month, and sometimes even the same day, as being  
15 placed in service, while others are unitized months, or even years,  
16 after being placed in service. The evidence and discussion of this  
17 issue is presented in further detail later in our testimony.

18 Staff includes within its testimony and exhibits specific assets for  
19 which the unitization date is called into question and concludes<sup>26</sup>:

20 The inconsistent UPIS practices described above are concerning  
21 to the Public Staff as they can result in financial windfalls to the  
22 detriment of ratepayers.

23 **Q. HOW DOES AQUA RESPOND TO THIS CONCERN?**

24 A. Aqua takes this matter very seriously and has worked with the Public Staff  
25 to understand its concerns. The Company has provided an inordinate  
26 amount of detail and has reviewed that information and Aqua's related  
27 processes extensively with Staff. In fact, the Company provided Staff with

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<sup>24</sup> Second Status Report filed in Docket No. W-218, Sub 274, on September 29, 2009.

<sup>25</sup> Page 8, lines 16-24 of Joint Testimony

<sup>26</sup> Page 17, lines 3-5 of Joint Testimony



1 information on over 63,000 asset entries for the period 2015-2020. The  
2 Company has nothing to hide, the data speaks for itself, and we disagree  
3 with Public Staff's conclusion. There are systems and processes in place  
4 to track, document and verify the Company's utility plant in service. Aqua  
5 North Carolina is a subsidiary of Essential Utilities (formerly Aqua America),  
6 a publicly traded utility. As such, Essential Utilities is subject to the  
7 Sarbanes-Oxley process which includes a review of key internal controls on  
8 an annual basis. In addition, the finance department of Aqua North Carolina  
9 works through quarterly reviews of various capital project reports and  
10 conducts regular meetings with operations and engineering staff to stay  
11 informed of the status of Construction Work in Progress ("CWIP"). Finally,  
12 Essential Utilities also has an internal audit group that follows a three-year  
13 rotational review of each state, which includes Aqua North Carolina (last  
14 review in 2018). While all processes are subject to inadvertent mistakes  
15 and no process is without room for improvement, the Company feels  
16 strongly that its processes work, and work well. As to the specific concerns,  
17 we will address them in paragraphs to follow.

18 **Q. PLEASE COMMENT ON THE GENERAL BREADTH AND SIZE OF THE**  
19 **COMPANY'S INFRASTRUCTURE IMPROVEMENT FOCUS AND HOW**  
20 **THIS IMPACTS THE ACCOUNTING STAFF CHARGED WITH**  
21 **RECORDING THESE ENTRIES.**

22 **A.** In any given month, the Company is closing as much as \$13 million in rate

1 base. Excluding the auto-unitizing “blanket”<sup>27</sup> projects, the Company  
2 manually unitized an average of 133 line-items per month in 2015-2020,  
3 and as many as 749 in a single month. Each of these line-items can be as  
4 simple as a single invoice or as complex as hundreds of lines of activity  
5 including vendor payments, internal payroll capitalizations, inventory  
6 assignments, overhead allocations and AFUDC assessments.

7 Projects are a compilation of the efforts of specialists: engineers, operators  
8 and compliance professionals. The Company does not employ an overlay  
9 of professional project managers but rather relies on the individual  
10 specialists to successfully execute within their silos of expertise, as well as  
11 in concert with each other. The unitization process is coordinated by the  
12 Company’s property accountant. That individual is a highly skilled and  
13 experienced accountant, and though neither a project manager nor a field  
14 expert, her role has elements of each discipline. It is particularly the project  
15 management element that instills complication and real world challenges in  
16 the unitization process as she coordinates the administrative “punch list” of  
17 open items across the various disciplines, integrated with the accounting  
18 requirements to ensure that vendor payments occur only when properly

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<sup>27</sup> “Blanket” funding projects represent a specific category of asset additions with particular characteristics within the Company’s Power Plant asset subledger. These projects are typically routine replacements, often emergency services or similar expenditures that require no engineering or long-term coordination of resources. These assets are not assigned (and Aqua personnel have no ability to assign) completion or in-service dates as they are immediately unitized and placed in-service in the month the expenditure is incurred. This is a standard feature of the Power Plant asset subledger, a software program designed for the utility industry. Because these purchases unitize individually each month for each asset class and each system, Aqua’s asset listing is overwhelmingly comprised of blanket purchases.

1 approved and substantiated.

2 **Q. DO YOU KNOW IF AQUA NORTH CAROLINA IS UNIQUE IN THE**  
3 **REQUIREMENT TO CLOSE PROJECTS FOR INDIVIDUAL SYSTEMS?**

4 A. Yes, the North Carolina requirement for system level assignment of assets  
5 is unique. It is my understanding that no other state in which Aqua operates  
6 requires assets within the same consolidated rate division to be accounted  
7 for at the individual water system level. To give perspective to the diffuse  
8 nature of Aqua North Carolina's operations and resultant accounting  
9 challenges, there are 735 water systems and 64 sewer systems in Aqua  
10 North Carolina. These North Carolina systems comprise nearly 50% of the  
11 systems in all of Aqua America but serve less than 10% of all its customers.  
12 In my view, the system-level of detail takes away one of the benefits of  
13 consolidation and exacerbates the added layer of work in tracking the  
14 thousands of projects our employees work on every year.

15 **Q. DESPITE THIS DETAIL, DOES THE PROCESS WORK?**

16 A. Yes, the Company has adapted to this process. However, I will note, and it  
17 must be recognized, that real work events impact the process. Employee  
18 vacations and sick time, vendor changes, delays, and varying levels of field  
19 staff experience are just a few examples of factors that impact the process.  
20 I will also note that, building on earlier discussion regarding project  
21 management, communication between the field staff and accounting staff is  
22 key here. Again, due to the way in which individual projects are closed, that

1 communication impacts the timing of closing projects.

2 **Q. PLEASE EXPAND ON THE PUBLIC STAFF'S CONCERN.**

3 A. Staff's concern is that the Company—allegedly intentionally---unitizes  
4 assets inconsistently. In Staff's view, the unitization occurs too quickly in  
5 some cases, and not soon enough in others. When an asset unitization is  
6 delayed----even where necessary or unavoidable---it can end up in the  
7 wrong year. Their concern follows that this impacts the starting period for  
8 depreciation and that can have an impact on rate base, and therefore rates.

9 **Q. HOW DOES USING THE MID-YEAR DEPRECIATION CONVENTION**  
10 **MINIMIZE ANY INCREMENTAL GAIN FOR THE COMPANY?**

11 A. The mid-year convention is a commonly used depreciation method,  
12 compliant under Generally Accepted Accounting Principles, that assesses  
13 a half year's depreciation to all assets in the year of acquisition regardless  
14 of the in-service month. Whether an asset is unitized in January-2019 or  
15 December-2019, the asset will be assessed the same ½ of a full year's  
16 depreciation, therefore minimizing the impact of the unitization date during  
17 the year.

18 **Q. WHERE HAS THE PUBLIC STAFF SEEMED TO FOCUS IN TERMS OF**  
19 **UNITIZATION DATES?**

20 A. Because of the mid-year depreciation convention, unitization dates really  
21 only matter when an asset crosses years. For example, if an asset is  
22 unitized in 2020 that should have been unitized in 2019, the asset will record

1 no depreciation in 2019 and six months of depreciation in 2020. However,  
2 the asset would appropriately have recorded six months in 2019 and a full  
3 year in 2020, a difference of one year's depreciation. Thus, much of the  
4 conversation with Public Staff has been when an asset crosses years.

5 **Q. DO YOU HAVE ANYTHING YOU'D LIKE TO COMMENT ON IN REGARD**  
6 **TO THE PUBLIC STAFF'S TERMINOLOGY?**

7 A. Yes, Staff's use of the term "financial windfall" is concerning. Aqua takes  
8 exception to this language and to the insinuations that arise from it. As  
9 mentioned previously, Aqua has thousands of projects each year that must  
10 be documented and processed on a timely basis. The Company is always  
11 open for constructive suggestions from the Public Staff and we will review  
12 those recommendations; especially those which can help improve our  
13 processes. The Company objects strongly, however, to suggestions that  
14 we are trying to inflate the costs to ratepayers to the benefit of shareholders.  
15 A successful organization finds a balance among all its stakeholders:  
16 customers, shareholders, employees, bondholders, the environment, and  
17 the communities in which we reside and to whom we serve. Aqua feels  
18 strongly that it has a history of maintaining such a balance and rejects any  
19 implication to the contrary.

20 **Q. WHAT CONCERNS WERE IDENTIFIED BY THE PUBLIC STAFF IN**  
21 **HENRY AND JUNIS EXHIBIT 1?**

22 A. Henry and Junis Exhibit 1 lists nine projects (fifteen line-items) totaling \$5.8

1 million of additions included in the prior rate case (W-218 Sub 497, decided  
2 by Order of December 18, 2018) that Staff now believes may have been  
3 unitized in the wrong period. Although Staff proposed no adjustment for  
4 these expenditures, since the issue has been raised, the Company  
5 addresses it here.

6 Note that upon its further review, Staff has acknowledged<sup>28</sup> that one of the  
7 listed projects (Governor's Club EQ Replacement) in the amount of \$1.1  
8 million is no longer a concern for Staff.

9 **Q. PLEASE EXPAND ON SOME OF THE REASONS WHY A PROJECT**  
10 **CLOSING MIGHT BE DELAYED AS PART OF NORMAL OPERATIONS**  
11 **OF THE COMPANY.**

12 A. The Company agrees with the Public Staff's assessment that the unitization  
13 process can be cumbersome, but much of that is a direct result of the  
14 inherent complexity of any project completion process. As described  
15 previously, the closing of a project can involve the separate functions of  
16 engineering, operations, compliance and accounting. External influencers  
17 such as vendors and regulatory agencies add another level of complexity  
18 and inefficiency. As Staff notes, ideally all plant would unitize in the month  
19 placed in service, but Staff also notes appropriate causes for delay in  
20 unitization "... include, but are not limited to, receipt of accounts payable  
21 from vendors, invoicing disputes, and mechanical, structural, and/or

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<sup>28</sup> Provided by Public Staff in response to question 3a of Aqua's Data Request No. 8

1 efficacy issues that develop upon start-up.<sup>29</sup>

2 **Q. HOW DOES THE COMPANY RESPOND TO THE SPECIFIC CONCERNS**  
3 **IDENTIFIED BY THE PUBLIC STAFF AS SUPPORTED BY HENRY AND**  
4 **JUNIS EXHIBIT 1?**

5 Revised Thill Rebuttal Exhibit 5 has added a column to Henry and Junis  
6 Exhibit 1 to identify the last invoice payment for each of the listed projects.  
7 Staff identified a number of subjective reasons that might appropriately  
8 delay unitization, but invoice payment dates are a fully objective indicator,  
9 as the project **cannot** close until all costs are in. Note that six line-items  
10 totaling \$3.4 million of the \$4.7 million in question (after removing the  
11 Governor's Club project from the population) show that, despite having in-  
12 service dates of October 2017, final invoice payments did not occur until  
13 December of 2017. Another \$0.8 million made final payments in November  
14 2017. Just as immediate unitization is an ideal, so too is the 30-60 day  
15 subsequent window.

16 **Q. BASED ON YOUR REVIEW, IS IT EASY TO SECOND-GUESS SOME OF**  
17 **THE CLOSINGS?**

18 A. Looking back, we can now know definitively when final payments were  
19 made, but only through that lens of hindsight. Information is often not known  
20 for some window of time after payments are made due to the necessary

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<sup>29</sup> Provided by Public Staff in response to question 1b(i) of Aqua's Data Request No. 8, included in this Rebuttal as Thill Rebuttal Exhibit 6.

1 coordination between internal departments and external vendors,  
2 particularly where invoice disputes might exist. And payment processing is  
3 only one factor for consideration in the unitization process. The Public  
4 Staff's post-unitization review has the benefit of hindsight in reviewing  
5 payment data, but does not assess the full complement of factors  
6 influencing the Company's unitization on a real-time basis. Yet, Staff would  
7 seek to retroactively assign its conclusion to the Company's unitization  
8 practice.

9 **Q. WHAT OTHER OBSERVATIONS DID STAFF MAKE?**

10 A. Despite expressing its view that unitization in the month placed in service is  
11 the ideal practice, Staff, at the same time, registers concern when that ideal  
12 is actually achieved. Staff opines that "the Company benefits financially  
13 from unitizing plant costs as close to rate recovery as possible.<sup>30</sup>" The  
14 Company offers that a more correct phrasing of this relationship is that the  
15 Company is harmed less by lag when it unitizes plant costs as close to rate  
16 recovery as possible. Staff correctly notes that unitizations occur at a higher  
17 frequency in the months that cut off the two semi-annual WSIC/SSIC filing  
18 periods. Regulatory lag itself incentivizes utilities to time the start and  
19 completion of projects based on rate recovery cycles. This should be  
20 neither surprising nor alarming. As quoted in Staff's testimony, the primary  
21 intent of the WSIC/SSIC mechanism is "... to encourage and accelerate

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<sup>30</sup> Page 11, lines 16-18 of Joint Testimony



1 investment in needed water and sewer infrastructure by means of a  
2 mechanism which will alleviate the effects of regulatory lag...<sup>31</sup> The  
3 concern raised now by Staff is not a challenge to the prudence of the  
4 expenditure or the validity of recovery or even the timely benefit to the  
5 customer, but that somehow the Company is wrong for timing its  
6 expenditures to minimize the loss of its original cost (or principal, if one were  
7 to view the transaction as a loan to be repaid) as well as the related cost of  
8 capital (or interest/return). Note that the interest and depreciation (principle)  
9 incurred/recorded on all assets is LOST (free) through the date an asset is  
10 included in prospective rates – these costs are never recovered by the  
11 utility. Staff would have the Commission accept that the Company's  
12 prudent, loss-minimization strategy equates to the production of an  
13 inappropriate "financial windfall." Obviously, the Company contests that  
14 assertion.

15 **Q. HOW DOES THE COMPANY RESPOND TO THE SPECIFIC CONCERNS**  
16 **IDENTIFIED BY THE PUBLIC STAFF AS SUPPORTED BY HENRY AND**  
17 **JUNIS EXHIBIT 3?**

18 A. Henry and Junis Exhibit 3 describes projects included in the Company's  
19 November 1, 2019 Application for Approval of Water and Sewer System  
20 Improvement Charge Rate Adjustments. Staff paints a picture of an inflated

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<sup>31</sup> Page 31, lines 22-25 of Joint Testimony, quoting from the Commission's May 2, 2014, Order Granting Partial Rate Increase, Approving Rate Adjustment Mechanism, and Requiring Customer Notice, in Docket No. W-218, Sub 363

1 WSIC/SSIC application by the Company to the financial detriment of its  
2 customers. Aqua agrees that adjustments were made in October to reduce  
3 the cost of assets included in that application by \$16,354. The adjustments  
4 were necessary and appropriate corrections of a system processing error  
5 that recorded too much AFUDC in September. It was an inadvertent  
6 mistake. However, contrary to Staff's representation, this information was  
7 provided to the Public Staff and was considered in the Staff's presentation  
8 for the Commission's approval. The Order included several references to  
9 the Aqua revised Appendix B as well as Staff's recommendations as  
10 follows<sup>32</sup>:

- 11 (1) Revisions made to Uniform water project cost – In response to Public  
12 Staff data requests, Aqua provided to the Public Staff, a *revised*  
13 *Appendix B* for Uniform water operations reflecting a reduction of the  
14 total cost of several projects listed in the original filing. The combined  
15 reduction of these project costs is \$9,193.  
16 (2) Correct accumulated deferred income tax (ADIT) – Aqua inadvertently  
17 calculated tax depreciation on land acquired as part of the 2019 projects  
18 costs for Uniform water operations. This error was subsequently  
19 corrected by Aqua in the *revised Appendix B* provided to the Public  
20 Staff.  
21 (3) Adjustment to Brookwood/LaGrange project cost – The Public Staff is  
22 recommending an adjustment to decrease the cost of the Strickland  
23 Road water main relocation project from \$237,426 to \$236,737 based  
24 on responses provided by Aqua to Public Staff data requests.

25 (emphasis added)

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<sup>32</sup> Page 4 of January 6, 2020, "Order Approving Water and Sewer System Improvement Charges on a Provisional Basis and Requiring Customer Notice", Docket No. W-218, Sub 497A

1 Thill Rebuttal Exhibit 7 shows relevant components of the initial filing and  
2 the approved Order. It is unclear why some discrepancies exist but Aqua  
3 notes that the Order reflects the AFUDC adjustments for:

- 4 - the full list of ANC Water projects,
- 5 - none of the ANC Sewer adjustments,
- 6 - and only one of three Brookwood adjustments.

7 As a note for completion, it appears that the Company did not provide the  
8 AFUDC adjustment amount of \$1,829 for two ANC Sewer projects included  
9 in Henry and Junis Exhibit 3.

10 Thill Rebuttal Exhibit 7 shows definitively that the Company did provide, and  
11 Staff was aware of and considered, at least the majority of the October  
12 adjustments. Staff mistakenly states otherwise in its testimony<sup>33</sup>:

13 The Company did not provide this credit to plant as an update to the  
14 WSIC/SSIC Application and therefore, since January 1, 2020, the  
15 Company has been recovering the incremental depreciation expense  
16 and capital costs associated with the \$16,354 through the mechanism  
17 surcharges. The Public Staff will recommend the excess monies  
18 recovered between January 1, 2020, and the date of the rate case order  
19 in the present docket be refunded as part of the annual review and EMF  
20 as of the end of the year. The foregoing analysis shows that the  
21 Company is not consistently following its own accounting procedures to  
22 "allow 30 to 60 days for any trailing costs to be charged to these in-  
23 service activity numbers before closing the asset."

24 Public Staff's recommendation in the WSIC/SSIC Order, with these AFUDC  
25 adjustments in-hand, concludes in part<sup>34</sup>:

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<sup>33</sup> Page 12, line 15 to page 13, line 3 of Joint Testimony

<sup>34</sup> Page 5 of January 6, 2020, "Order Approving Water and Sewer System Improvement Charges on a Provisional Basis and Requiring Customer Notice", Docket No. W-218, Sub 497A

1 The effect of the adjustments discussed above reduces the overall  
2 revenue requirement for Uniform water and Brookwood/LaGrange water  
3 operations, however, Aqua's proposed WSIC percentages did not  
4 change based on the projected 2020 non-WSIC revenues.

5 That conclusion by Staff would indicate that it felt at the time, and with  
6 knowledge of at least the majority of those adjustments, that rates were set  
7 appropriately.

8 The Company is in full agreement that the referenced WSIC/SSIC rates  
9 should be subject to recovery by customers of any excess collections, as  
10 all WSIC/SSIC adjustments are. However, the Company would argue  
11 strongly against Staff's claim that this incident is indicative of a variance in  
12 the Company's accounting procedures or that this event supports Staff's  
13 overall conclusion that a review of procedures is warranted. The specific  
14 incident that Staff brings to question here is the correction of an inadvertent  
15 processing error. The Company's immediate correction of that error and  
16 timely notice to Staff after filing its Application should be part of a normal  
17 course of business, not an action to be penalized.

18 **Q. HOW DOES THE COMPANY RESPOND TO THE SPECIFIC CONCERNS**  
19 **IDENTIFIED BY THE PUBLIC STAFF AS SUPPORTED BY HENRY AND**  
20 **JUNIS EXHIBIT 4?**

21 A. Henry and Junis Exhibit 4 summarizes Staff's review of assets included in  
22 the Company's May 1, 2019 WSIC/SSIC application. During Staff's  
23 application review, it identified concerns regarding the in-service dates of  
24 several projects and provided the Company an opportunity to review and

1 challenge its conclusions. The Company did not challenge the Staff's  
2 conclusion as part of the WSIC/SSIC application, nor does it challenge the  
3 adjustment in this rate case. Staff's adjustment concerns modification of in-  
4 service dates on assets totaling \$1.6 million, with a net reduction to the  
5 revenue requirement of approximately \$4,400.

6 **Q. HOW DOES THE COMPANY RESPOND TO THE SPECIFIC CONCERNS**  
7 **IDENTIFIED BY THE PUBLIC STAFF AS SUPPORTED BY HENRY AND**  
8 **JUNIS EXHIBIT 5?**

9 A. I respectfully contend that this analysis does not take into account the reality  
10 of the every-day operations of the utility. While I believe the exercise  
11 undertaken in Henry and Junis Exhibit 5 is not relevant, since it has been  
12 included in public testimony, I provide the following comments. Henry and  
13 Junis Exhibit 5 applies Public Staff's own standard in waiving the accepted  
14 30-60 day unitization period and changes the depreciation dates for a host  
15 of post-test year additions either to the system designated in-service date  
16 or, in some cases, an alternative date of its choosing. Having previously  
17 expressed its concerns as to possible delays in the unitization of some  
18 projects, Staff pivots to a new argument that because the Company is able  
19 to achieve the ideal objective of unitizing some projects in the month placed  
20 in service, the Company should be retroactively held to a standard requiring  
21 that all projects should have been unitized in the month of service,

notwithstanding accepted policy or its own expressed list of factors that would appropriately delay unitization.

Staff states in its testimony<sup>35</sup>:

As shown in **Henry and Junis Exhibit 5**, we adjusted the unitization date for 44 plant additions in the total amount of \$1,381,871. For the majority of the plant additions listed, the Public Staff corrected the date to be the in service date inputted by the Company and/or a reasonable amount of time after the trailing costs had been sufficiently captured. End of year closings were considered to require the same level of expediency as employed by the Company for its unitizations in September 2019 and March 2020, a majority of which were same month closings.

Missing from Staff's explanation is clarification that it used its own estimate to "correct" the unitization date to either the in-service date inputted by the Company or an earlier date of Staff's determination of a reasonable amount of time after the trailing costs had been sufficiently captured. Interesting in this exercise is that Staff actually moved the unitization date in advance of the final vendor payment for ten (10) of the 44 line-items, *a practice unavailable to the Company as Staff has previously required that projects close a single time once all costs are final*. In each of these 10 cases, the last vendor payment was still in 2019, which matched the revised unitization year, but Staff's presentation serves to exaggerate the unitization lag.

In that Staff, as shown earlier, acknowledges that there are valid reasons that assets might be unitized beyond the service date, Aqua inquired in and Staff responded to, Question 8 of its Data Request No. 8 as follows<sup>36</sup>:

<sup>35</sup> Page 15, lines 5-13 of Joint Testimony

<sup>36</sup> Included in this Testimony as Thill Rebuttal Exhibit 9

- 1 Q. a. For EACH addition listed for which Staff has assigned its own in-  
2 service date rather than accepting the in-service date provided by  
3 the Company, please explain Staff's process and reason for  
4 conclusion.  
5 b. For EACH addition listed for which Staff has accepted the  
6 Company's in-service date as the appropriate unitization date,  
7 please explain Staff's process of evaluating whether extenuating  
8 circumstances might have appropriately delayed the unitization.  
9
- 10 A. Given the time allotted to respond to this and other data requests  
11 directed to witness Junis, the Public Staff cannot address each  
12 addition but can provide a more detailed description of the general  
13 process utilized to identify and recommend reasonable in-service  
14 dates. Page 15, lines 7-13, states as follows:  
15

16 For the majority of the plant additions listed, the Public  
17 Staff corrected the date to be the in service date inputted  
18 by the Company and/or a reasonable amount of time after  
19 the trailing costs had been sufficiently captured. End of  
20 year closings were considered to require the same level of  
21 expediency as employed by the Company for its  
22 unitizations in September 2019 and March 2020, a  
23 majority of which were same month closings.  
24

25 In general, the Public Staff reviewed the available detailed  
26 transaction listing supporting the final cost of each project, Aqua's  
27 internal work order and engineering project closure form,  
28 engineering certification and NCDEQ final approval, accounts  
29 payable invoices, and any associated data request response. Upon  
30 consideration of the available documentation, the Public Staff utilized  
31 either the unitization date, in-service date, or recommended a  
32 reasonable alternative in-service date.

33 The unitization date for 11 of 44 line-items was changed to a date other than  
34 the system in-service date. Staff has performed a detailed review of the  
35 assets in question but failed to provide that review for rebuttal by the  
36 Company in question (a) above. Thirty-two (32) of 44 line-items totaling  
37 \$1,061,741 (79%) had in-service dates in November or December 2019,  
38 and allowing 30-60 days to ensure completion, brings those assets into

1 2020 within policy but, Staff has provided no indication of its post-in-service  
2 review as requested in question (b) above.

3 Adjustments proposed by Staff and comments in testimony imply that the  
4 Company is intentionally delaying unitization to enhance earnings to the  
5 detriment of its customers. Staff notes, "All of the adjustments result in the  
6 assets accumulating additional depreciation either in the pending rate case  
7 or in future rate cases.<sup>37</sup>" That comment reads as if 100% of a population,  
8 or at least of a representative sample, was found to be in error. Henry and  
9 Junis Exhibit 9 shows that asset additions recorded in the first quarter of  
10 2020 totaled nearly \$15 million. Staff has raised concerns on \$1.3 million  
11 (9%), and has rejected past policy of a 30-60 day closing period to get to  
12 that level. Missing from the picture drawn by Staff's inferences is a more  
13 holistic picture of the Company's unitization practices. Thill Rebuttal Exhibit  
14 8 shows that of \$1.8 million unitized in December 2019 (excluding blankets  
15 which unitize without discretion), \$1.6 million have in-service dates either in  
16 November or December 2019, which according to policy parameters could  
17 have been pushed to 2020 if return, rather than proper accounting, were the  
18 Company's primary concern. And further to that point, excluding the  
19 anomaly of 2018 spending that led up to that year's rate case, the month of  
20 December had the third most unitizations across those four years, including  
21 42% unitized in the same month and 31% within 30 days (i.e. November in-

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<sup>37</sup> Page 15, lines 13-15 of Joint Testimony



1 service). March and September top the list for unitizations as discussed  
2 earlier but if the Company were truly trying to manipulate unitization  
3 practices as implied by Staff, December should be at the bottom of the list,  
4 not near the top.

5 **Q. DOES THE COMPANY AGREE WITH THE FOUR PROJECT SPECIFIC**  
6 **ADJUSTMENTS PROPOSED BY THE PUBLIC STAFF?**

7 A. The Company concedes to Staff's adjustment on two projects and  
8 challenges the adjustments on the other two. Staff's rationale<sup>38</sup> and the  
9 Company's response are discussed individually below:

10 Field Tablets – 2019

11 *Staff's rationale for the adjustment:* The transaction detail includes one  
12 accounts payable in February 2019, one miscellaneous journal entry in  
13 February 2019, and eleven months of AFUDC. The project was unitized in  
14 March 2020. This technology procurement is not considered construction  
15 work in progress and the Public Staff recommends disallowance of the  
16 entire AFUDC amount of \$12,526.25.

17 *Company response:* The facts provided are accurate. The project was run  
18 by Aqua America's IT staff and the February invoice procured tablets for  
19 several states at bulk pricing. Tablets were not distributed to North Carolina  
20 personnel until November 2019 when training took place. Staff's  
21 determination that this technology procurement is not considered

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<sup>38</sup> Provided by Public Staff in response to question 11 of Aqua's Data Request No. 8

1 construction in progress ignores the very nature of AFUDC, which is to  
2 recognize the capital cost of financing such a purchase.

3 Bridgepoint #8 Instl AquaGuard

4 *Staff's rationale for the adjustment:* The latest accounts payable transaction  
5 was April 2018, the Company indicated an in-service date of May 2018, and  
6 the unitization occurred in December 2019. The Public Staff recommends  
7 disallowance of the net accrual of AFUDC in the amount of \$856.55 from  
8 June 2018 through December 2018.

9 *Company response:* Aqua concedes to this adjustment.

10 RC New Generator Beachwood 02-196

11 *Staff's rationale for the adjustment:* Two accounts payable transactions  
12 occurred in July and September 2018, while the rest of the transactions  
13 were January 2012 or older. The Public Staff recommends those two  
14 accounts payable totaling \$10,043.95 be included in plant.

15 *Company response:* Work performed began in 2011 to install a generator  
16 at this wastewater plant. Approximately \$20,000 was spent during 2011  
17 and 2012 to design and permit the project that included upgraded electrical,  
18 a concrete pad and other improvements. Approvals were obtained from  
19 required local officials with the exception of the Fire Marshall, who refused  
20 to sign-off, so the generator was not installed. The project laid dormant until  
21 2018 at which time the Company re-initiated its effort to complete the install  
22 and expended an additional \$10,044 in support of the project. Public Staff

1 has recommended that only the 2018 spend of \$10,044 be recoverable,  
2 ignoring that the work completed in 2011-12 to install the concrete slab and  
3 electrical upgrades provided integral components of the final product. Note  
4 that no AFUDC was recorded on this project since it sat idle for so long; the  
5 full amount of the costs that Staff proposes to write off were cash  
6 expenditures of the Company, advanced for eight years to the ultimate  
7 benefit of customers. Aqua's position is that the usefulness of the asset  
8 should determine whether or not it warrants recoverability, not the age of  
9 the Company's expense.

10 Instl AquaGard Coachmans Trl #3

11 *Staff's rationale for the adjustment:* Only two accounts payable transactions  
12 occurred in March and July 2017. AFUDC accruals occurred in every month  
13 between February 2017 and December 2018. The Company indicated an  
14 in-service date of August 2017. The Public Staff recommends disallowance  
15 of the net accrual of AFUDC in the amount of \$2,296.21 from August 2017  
16 through December 2018.

17 *Company response:* Aqua concedes to this adjustment.

18 **Q. PLEASE PROVIDE SOME CONTEXT TO THE LEVEL OF EXPOSURE**  
19 **ASSOCIATED WITH PUBLIC STAFF'S REVIEW.**

20 A. I appreciate the Public Staff's review but respectfully provide the following  
21 information for some context for the Commission. Henry and Junis Exhibit  
22 9 shows the Staff was presented information on nearly \$160 million of

1 additions over 5.25 years; 3.5 yrs prior to the start of the test year in this  
2 case. Staff has used hindsight to go back in time and raise concerns  
3 regarding real-time processing of approximately \$8.4 million of additions, a  
4 portion of which is within this review only as a result of Staff's retroactive  
5 application of a brand-new unitization policy for the Company, and without  
6 regard to the factors even Staff has acknowledged are appropriate for  
7 delayed unitizations. To give perspective on that \$8.4 million, the only  
8 quantification of the impact of delayed unitizations has been regarding  
9 Henry and Junis Exhibit 4 where \$1.6 million of reassigned dates yielded a  
10 \$4,400 reduction in the revenue requirement of this rate case.

11 **Q. WHAT IS AQUA'S RESPONSE TO PUBLIC STAFF'S**  
12 **RECOMMENDATION THAT THE COMMISSION ORDER THE COMPANY**  
13 **TO REVIEW ITS PROCEDURES CONCERNING UPIS AND FILE A**  
14 **SUBSEQUENT REPORT?**

15 A. As stated above, the Company strongly believes that the appropriate  
16 processes and procedures are in place for documented utility plant in  
17 service. However, there is always room for improvement and Aqua is not  
18 opposed to reviewing these procedures. Aqua strongly disagrees with  
19 Public Staff's concerns and its references to potential "financial windfalls".  
20 Significant time and effort have already been exhausted by both Staff and  
21 the Company (and now the Commission) in reviewing this issue. We do not

1 believe another report is required on this matter, but will stand ready, again,  
2 if that is what it takes to eradicate this issue once and for all.

3 **Q. ARE THERE ANY OTHER OPEN ISSUES CONCERNING UPIS?**

4 A. Yes, there are two open issues as of this writing.

5 As noted in Staff's testimony, Aqua previously informed the Public Staff of  
6 its intent to update its plant in service for certain assets acquired or  
7 completed after the post-test-year date of March 31, 2020, pursuant to  
8 N.C.G.S. § 62-133(c). The initial notice to Staff identified eleven additions  
9 totaling approximately \$2.6 million. Nine of the eleven assets additions  
10 have been placed in service and are being unitized as of the filing of this  
11 rebuttal testimony. Aqua will continue to work with the Public Staff to ensure  
12 they obtain the necessary detail supporting the cost and inclusion of those  
13 assets in rate base within this case.

14 Also, the Company and Public Staff continue to address computational  
15 differences regarding the balances of Accumulated Depreciation on UPIS  
16 and Accumulated Amortization on CIAC. Accounting teams for both sides  
17 have expressed agreement in principle on the appropriateness of rolling  
18 balances through the post-test year date of March 31, 2020 and continue to  
19 work through the "math" of the corresponding adjustment. In that the  
20 differences are not conceptual, and the parties continue to work toward  
21 proper resolution, rebuttal here is limited to notice of the open issue. The  
22 Company believes the appropriate balance of Accumulated Depreciation on

UPIS included in rate base should be \$151.2 million. The Public Staff last provided figures to Aqua using a balance of \$155.0 million and has verbally agreed that an additional adjustment is required in the amount of \$3.8 million, which would fully bridge the gap. The adjustment represents a duplication of depreciation for the three months October through December 2019 already included in the original application and subsequently duplicated in Staff's adjustments. A similar process was conducted by both Staff and the Company to determine an adjustment for Accumulated Amortization on CIAC. Staff has provided a preliminary adjusted figure of \$80.0 million for this account, which materially agrees with Aqua's computation.

#### **5. WORKING CAPITAL**

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

A. To rebut specific portions of the testimony of Public Staff Witness Henry and the Joint Testimony of Public Staff Witnesses Henry and Junis concerning elements of Working Capital.

**Q. WHAT ARE THE COMPANY'S SPECIFIC CONCERNS WITH REGARD TO WORKING CAPITAL?**

A. The Company will address three different, but conceptually related, types of payments that Aqua has made on behalf of customers for which it does not believe it is being appropriately compensated in the rate base working capital computation as proposed by the Public Staff. The three payments

1 to be discussed are the Johnston County transmission fee, tank painting,  
2 and rate case expenses.

3 **Q. PLEASE DISCUSS IN GENERAL THE RATIONALE FOR INCLUDING**  
4 **WORKING CAPITAL AS A COMPONENT OF RATE BASE.**

5 A. The courts have opined, and the Commission has operated in a manner  
6 consistent with the philosophy, that<sup>39</sup>:

7 To fix rates that do not allow a utility to recover its costs, including  
8 the cost of equity capital, would be an unconstitutional taking.

9 Past Orders of the Commission provide extensive defense of this position  
10 and are therefore not recounted here. A utility is entitled to a fair return on  
11 all its property prudently employed for the benefit of its customers. Property,  
12 in this context, includes not just utility plant, but also any funds provided by  
13 shareholders on behalf of customers. Such funds are loosely termed here  
14 as working capital. This rationale has been consistently applied in the  
15 Company's prior rate cases.

16 **Q. PLEASE DESCRIBE THE ISSUE REGARDING THE JOHNSTON**  
17 **COUNTY TRANSMISSION FEE.**

18 A. The Commission stated in its Sub 497 Order that:

19 While the Commission determines to treat the \$785,000  
20 transmission fee as an expense, it further concludes, in its  
21 discretion, that this expense should not be recognized entirely  
22 in one cost of service year, but instead should be amortized  
23

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<sup>39</sup> Page 138 of Docket No. W-218, Sub 497, Order Approving Partial Settlement Agreement and Stipulation, Granting Partial Rate Increase, and Requiring Customer Notice, quoting rate of return on equity decisions established by the United States Supreme Court Decisions in *Bluefield Waterworks & Improvement Co. v. Pub. Serv. Comm'n of W. Va.*, 262 U.S. 679 (1923), and *Fed. Power Comm'n v. Hope Natural Gas Co.*, 320 U.S. 591 (1944)

1 and recovered over six years with no unamortized balance in  
2 rate base....”

3  
4 The Company is requesting reconsideration of the Commission’s position  
5 regarding the exclusion of this prepayment from rate base. The Public Staff  
6 opposes the Company’s request. The statutory authority for the  
7 Commission to engage in the reconsideration process is clearly set forth in  
8 G.S. 62-80, which provides, in pertinent part, that:

9 The Commission may at any time upon notice to the public  
10 utility and to the other parties of record affected, and after  
11 opportunity to be heard as provided in the case of complaints,  
12 rescind, alter or amend any order or decision made by it....

13  
14 **Q. WHAT ARE THE PUBLIC STAFF’S SPECIFIC OBJECTIONS AND HOW**  
15 **DOES AQUA RESPOND?**

16 A. The Public Staff provides the following three objections to the Company’s  
17 position:

18 Staff Objection: Aqua’s customers should not pay a higher cost in rates for  
19 a return on an expenditure determined to be an expense by the  
20 Commission.

21 Aqua Response: Staff’s objection here was novel and prompted the  
22 Company to inquire in Question 17 of its DR 8(d) as follows:

23 Is it Staff’s position that long-term assets recovered through  
24 an expense mechanism, such as amortization in the case of  
25 the transmission fee, have no related financing cost and  
26 therefore should not be included in rate base?

27 Staff’s Response was:

28 No. Please see response to Item 17.c. above.



1 That response read:

2 The Commission determined how this cost should be  
3 recovered from ratepayers in the Sub 497 rate case  
4 proceeding and the Public Staff agrees with the Commission's  
5 decision.

6 As alluded to in the above-referenced discovery question to the Public Staff,  
7 Aqua asserts that all expenditures are recovered as expenses – even UPIS  
8 is recovered as depreciation expense. The accounting mechanism is  
9 irrelevant to the argument of return. Return is the Company's compensation  
10 for employing capital for the benefit of customers, recognizing an  
11 opportunity cost of those funds during the lag between the Company's date  
12 of expenditure and the customers' reimbursement to the Company. In the  
13 case of the transmission fee, the Company paid \$785,000 for an asset with  
14 undisputed benefit for its customers. The exclusion of the unreimbursed  
15 portion of that payment from rate base is an interest-free loan from  
16 Aqua shareholders to its customers, which is in direct conflict with  
17 precedent that explicitly states that the utility should be allowed a  
18 reasonable opportunity to recover its costs, including the cost of equity  
19 capital.

20 Staff Objection: The Company fully litigated the issues associated with the  
21 payment of the wastewater capacity fee and transmission fee to Johnston  
22 County, and to the extent the Company took issue with the Commission's  
23 decision on this issue, the Company should have filed a motion for  
24 reconsideration or appealed from the decision.

1       Aqua Response: The Company agrees in principle with the Public Staff's  
2       position and hereby withdraws its proposal for the amount included in its  
3       Rate Case Application related to the retroactive recovery to the Sub 497  
4       Order date. However, the Company believes it appropriate and fully within  
5       the authority of the Commission to reconsider its position regarding rate  
6       base treatment in this case pursuant to G.S. 62-80 for the remaining  
7       unamortized balance of the transmission fees, as of the post-test year date,  
8       March 31, 2020, to be included in the working capital computation for  
9       purposes of setting new rates in this proceeding.

10      Staff Objection: The Public Staff further notes that the Company began to  
11      recover the expense as of the effective date of the new Sub 497 rates on  
12      December 18, 2018, and, if considered rate base, the transmission fee  
13      would not have been used and useful just the same as the wastewater  
14      capacity fee because the interconnection was not complete and in service.  
15      Said another way, it could be argued that the Company received  
16      accelerated recovery of the transmission fee.

17      Aqua Response: The used and useful argument is generally used in  
18      reference to UPIS where AFUDC will replace rate base inclusion to provide  
19      the Company with an appropriate cost of capital until placed in-service. As  
20      currently ordered as a non-earning asset, there is no such recovery  
21      alternative. The transmission fee has been recorded as a prepaid expense  
22      and, as such, the "used and useful" criteria would have served only to delay

1 the beginning of the amortization, resulting in a higher asset balance today  
2 (and higher rate base). Instead, the balance of the asset has appropriately  
3 decremented simultaneously with recovery in rates since the date of the  
4 Order, but without the unamortized balance having been included in rate  
5 base with a return as part of the Company's allowance for working capital.

6 **Q. PLEASE SUMMARIZE AQUA'S POSITION ON THE PREPAID**  
7 **TRANSMISSION FEE.**

8 A. The Public Staff's primary objection is that this matter was ruled on in the  
9 Sub 497 case. Aqua asserts that it is within the Commission's authority to  
10 revisit this decision, particularly as the Commission's decision to treat the  
11 transmission fee as a non-earning, long-term prepaid expense was offered  
12 in that case by neither the Company nor the Public Staff and was therefore  
13 not subject to discussion. The Company requests the Commission to  
14 recognize the cost of capital associated with this long-term asset and give  
15 rate base treatment to the transmission fee.

16 **Q. PLEASE DESCRIBE THE COMPANY'S CONCERN REGARDING TANK**  
17 **PAINTING.**

18 A. Tank painting has been a recognized component of the rate base working  
19 capital computation in prior cases and continues to be included in the Staff's  
20 current proposal. Tank painting occurs on a routine basis and is amortized  
21 over a 10-year life. The Sub 497 case included the full balance of the  
22 account in rate base, updated through the end of the post-test year. Under

1 the Public Staff's current proposal, Staff has modified past practice by  
2 amortizing one year of expense from the test-year balance.<sup>40</sup>

3 **Q. ARE OTHER WORKING CAPITAL COMPONENTS REDUCED BY AN**  
4 **AMORTIZATION AMOUNT AND, IF SO, WHY SHOULD TANK PAINTING**  
5 **BE CALCULATED DIFFERENTLY?**

6 A. One-time working capital components such as rate case expenses do have  
7 a year's amortization deducted from the prepaid balance in determining rate  
8 base. The distinction here is that for rate case expenses, the amortizing  
9 balance is not added to after the case is completed. As time passes, the  
10 Company collects reimbursement from customers via the amortization  
11 expense component of the revenue requirement, and the prepaid balance  
12 reduces accordingly. Tank painting is different in that there is a continual  
13 requirement for further capital advancement. In fact, the test year saw  
14 \$223,900 in expenditures against only \$151,100 in amortization. The  
15 Company does not believe Staff's proposed change is appropriate and  
16 requests that the Commission reaffirm past practice, eliminating the Staff's  
17 amortization projection and fixing the rate base balance at the post-test year  
18 date. This treatment would appropriately recognize the cost of an ongoing  
19 obligation of the Company to advance capital for this long-term operational  
20 expense for the benefit of its customers.

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<sup>40</sup> In effect, the Public Staff's proposal on this issue, which differs from past precedent, is in the nature of a motion for reconsideration.

**Q. PLEASE DESCRIBE STAFF'S POSITION REGARDING RATE CASE EXPENSES.**

A. In his pre-filed testimony at page 19, Witness Henry stated that:

The Public Staff has reevaluated the past practice of the water and/or wastewater utility's unamortized rate case expense balance being included in rate base upon which the utility earns a return. The Public Staff sees no reason for this practice to continue. The Public Staff recommends in this rate case proceeding and all future water and/or wastewater utility general rate cases that the unamortized rate case expense balance not be included in rate base with the utility earning a return. The unamortized balance would continue to be amortized in the Commission approved revenue requirement, thereby allowing the Company recovery of the expenses, but not allowing the utility to earn a profit on the rate case expenses.<sup>41</sup>

**Q. WHAT IS AQUA'S POSITION?**

A. Aqua, as a firm rule, is against providing interest-free loans. To do so willingly would be an imprudent use of shareholder funds, and to be forced to do so would seem to violate the previously quoted Court opinion regarding "unconstitutional taking." Witness Henry opines that the Company should not be allowed to "earn a profit on the rate case expenses". Inclusion in rate base is not the equivalent of earning a profit. As noted earlier, the courts have held that a utility is allowed "to recover its costs, including the cost of equity capital". Only after consideration of this cost of capital can "profit" be determined. As it is, the Company has already advanced significant sums in support of this rate case and will continue to

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<sup>41</sup> Here again, the Public Staff's proposal on this issue, which differs from past precedent, is in the nature of a motion for reconsideration.

1 do so without recovery or return until the Commission's Final Order. When  
2 recovery does begin, even if the Commission were to hold consistent with  
3 prior practice, the Company would still only recover its cost of funds on two-  
4 thirds of the balance (assuming a three-year amortization period<sup>42</sup>) due to  
5 the Public Staff's standard practice of rolling the balance forward a full year  
6 that resultantly deducts one year's amortization from cost of capital recovery  
7 in rate base. It is the Company's position that where the Company's prudent  
8 expenditures are not timely offset by recovery in rates, the cost of capital  
9 must be recognized in the rate base calculation.

10 **Q. PLEASE SUMMARIZE THE AQUA'S POSITION ON WORKING**  
11 **CAPITAL.**

12 A. The inclusion of working capital in rate base is a recognition of the cost of  
13 capital prudently employed by the utility for the benefit of its customers. The  
14 courts have long held that a utility is entitled to a fair return on all such  
15 property, and the Company submits that obtaining a fair return on that  
16 property is an important element in providing the Company with a  
17 reasonable opportunity to achieve its authorized return.

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<sup>42</sup> The Public Staff has proposed a three-year amortization. The Company has proposed a two-year amortization in recognition of the increased frequency of its current and expected future rate cases.

**6. CONSUMPTION ADJUSTMENT MECHANISM**

**Q. HAS THE COMPANY UPDATED ITS REQUEST TO INCLUDE THE GUIDANCE PROVIDED BY THE COMMISSION IN ITS ORDER ON THE CONSUMPTION ADJUSTMENT MECHANISM (“CAM”), ISSUED ON MAY 12, 2020?**

A. The Company has not. Aqua appreciates the issuance of the Order in Docket No. W-100, Sub 61, and thanks the Commission for the courtesy of allowing the Company an opportunity to adjust its position in this case. However, the Company elects respectfully to proceed with this case in a timely fashion and has made the decision not to pursue the CAM in this docket, but rather to incorporate a CAM proposal, developed in light of the Commission’s rules, in its next base rate request. As such, Aqua formally withdraws its request to utilize the CAM in this rate case.

**7. DEFERRED ACCOUNTING TREATMENT**

**Q. PLEASE EXPLAIN WHY AQUA PURSUED WHAT HAS BEEN DESCRIBED BY THE PUBLIC STAFF AS A “NOVEL” DEFERRED ACCOUNTING TREATMENT IN THIS CASE?**

A. As highlighted in witness Becker’s direct testimony, Aqua has been persistently unable to achieve its authorized return on equity in North Carolina in any year since it began operations in the state in 2003. In the more recent years, this has been amplified as a result of rate lag on the significant increased level of investment required to maintain utility

1 infrastructure. Aqua invested \$154 million in North Carolina over the last  
2 five years, which is significant considering Aqua's total plant, net of CIAC,  
3 at the end of 2019 was approximately \$271 million. As highlighted by  
4 Witness Junis, Aqua's capital spend has increased over the last several  
5 years. These investments were required to maintain and improve Aqua's  
6 ability to provide safe, reliable, and environmentally compliant service to our  
7 customers. It is significant to note that within 12 months after the issuance  
8 of the Commission's Order in Docket No. W-218 Sub 497, with an  
9 authorized ROE of 9.7%, Aqua's adjusted ROE in North Carolina was  
10 already less than 7%. Per Book ROE is approaching 5% and is lower than  
11 adjusted ROE since it includes further dilution from the \$14.7 million of  
12 goodwill recorded on Aqua North Carolina's balance sheet and certain one-  
13 time items that are not considered for recovery in rate base or the revenue  
14 requirement calculations.

15 In an attempt to reduce regulatory lag and minimize the amount of  
16 depreciation that is permanently lost to the utility, Aqua endeavors to utilize  
17 mechanisms that exist under the current regulatory construct and exhaust  
18 every reasonable construction of the statutes.

19 We are charged with the responsibility of providing safe and reliable service  
20 to Aqua North Carolina's water and wastewater service. Part of this  
21 directive is to make sure the company is financially healthy. As such, we  
22 are attempting to utilize every available tool to combat regulatory lag, and it



1 was our decision to pursue a “novel” use of the deferral accounting  
2 mechanism by requesting its application be based on the aggregate of its  
3 post-test year capital expenditures.

4 **Q. DO YOU UNDERSTAND THAT THIS “VERSION” OF DEFERRED**  
5 **ACCOUNTING---PRINCIPALLY WITH RESPECT TO APPLICATION**  
6 **FOR IT BASED ON YOUR POST-TEST YEAR PROJECTS, IN THE**  
7 **AGGREGATE---HAS NOT BEEN APPROVED BY A PRIOR**  
8 **COMMISSION ORDER?**

9 A. Yes, I do. However, I do not believe that fact precludes a utility from making  
10 such a request. We researched the Commission’s exercise of its authority  
11 and discretion to utilize deferred accounting, and we agree that the tool has  
12 not been used in the manner that we request. However, Aqua believes it is  
13 a reasonable request, that the Commission has the authority to utilize the  
14 tool in this fashion, and that it would be an effective and warranted means  
15 to afford the utility a reasonable opportunity to earn its authorized return.  
16 With the use of deferred accounting, as Aqua has requested it, a utility like  
17 Aqua that invests robustly in this state can both make that necessary  
18 investment and avoid sacrificing its reasonable financial interests in the  
19 process.

20 **Q. DO YOUR RESPONSES AS SET FORTH ABOVE ALSO APPLY TO**  
21 **AQUA’S REQUEST FOR PROSPECTIVE AUTHORIZATION TO DEFER**  
22 **DEPRECIATION AND CARRYING COSTS ON POST-RATE CASE**

**CAPITAL EXPENDITURES, OTHER THAN ROUTINE REPLACEMENTS,  
UNTIL INCLUDED IN RATES IN THE COMPANY'S NEXT GENERAL  
RATE CASE?**

A. Yes. As noted by witness Becker in his direct testimony, the Company expects to continue to invest capital at significantly heightened levels and, as such, anticipates needing to file rate cases at a higher frequency – every 12-15 months - in order to attain its authorized ROE. For the same reasons that Aqua has requested authorization for deferral accounting for the post-test year additions, the Company continues to request prospective authorization to defer depreciation and carrying costs on post-rate case capital expenditures, other than routine replacements, until included in rates in our next rate case.

**Q. DOES THIS CONCLUDE THIS SECTION OF YOUR REBUTTAL  
TESTIMONY?**

A. Yes.

1           Q     All right. Mr. Thill, would you proceed with  
2     your summary, please?

3           A     Certainly. The purpose of my rebuttal  
4     testimony is to challenge and refute the direct testimony  
5     of Public Staff witnesses Charles Junis and Windley Henry  
6     with respect to the following:

7                     Staff's objection to conservation pilots in  
8     general, and to Aqua's proposed program, including  
9     elements and price elasticity and a revenue  
10    reconciliation mechanism.

11                    Staff's objection to implementation of a  
12    conservation normalization factor to counteract the  
13    revenue insufficiency in coming to a ratemaking  
14    calculation that uses three-year historical consumption  
15    rates during periods of decline in consumption. This  
16    proposal was withdrawn by the Company as part of the  
17    Stipulated Partial Settlement reached with the Public  
18    Staff.

19                    Staff's proposal to apply consumption factors  
20    to sewer entities based on charges -- changes in water  
21    consumption, despite evidence showing water consumption  
22    variances are driven overwhelmingly by discretionary  
23    summer usage, heavily influenced by irrigation which does  
24    not flow through the sewer system, has no impact on the

1 expenses of those entities. The Staff's proposal was  
2 agreed to by Aqua as part of the Stipulated Partial  
3 Settlement reached with the Public Staff.

4 Staff's proposal to further destabilize the  
5 Company's earnings by changing the fixed variable ratio  
6 revenues from 40:60 to 30:70 for water customers and  
7 100:0, or flat rate, to 60:40 for residential sewer  
8 customers. Here again, I would note that that 40:60  
9 number is a generalization. I've got a footnote there  
10 that says the specific ratios of current base facility  
11 charges to volumetric charges for each of Aqua's three  
12 water rate divisions are 40:60 for Aqua, 41:59 for  
13 Brookwood, and 44:56 for Fairways.

14 Next, assertion by Staff that the Company has  
15 been inconsistent, to the detriment of customers,  
16 regarding its plant unitization practices. Aqua contests  
17 the Public Staff's allegations and firmly believes in the  
18 soundness of the Company's position on this extremely  
19 important issue which is far more complicated than it  
20 appears. As a function of the evolving understanding of  
21 the Public Staff's position and with the Commission's  
22 permission, Aqua would like to amend its filed position  
23 concerning the Public Staff's recommendation for a 90-day  
24 report.

1           Next, Staff's objection to the Company's  
2   proposal for a rate base treatment of Johnston County  
3   transmission fees, as well its modifications to past  
4   practices concerning rate base treatment of prepaid tank  
5   painting and rate case expenses. The proposals were  
6   withdrawn by the Company as part of the Stipulated  
7   Partial Settlement reached with the Public Staff.

8           Next, the Staff's objection to the Company's  
9   request for deferred accounting treatment of certain  
10   asset additions. Aqua's proposal was withdrawn by the  
11   Company as part of the Stipulated Partial Settlement  
12   reached with the Public Staff.

13           And further, my rebuttal testimony formally  
14   withdraws the Company's request to implement a  
15   consumption adjustment mechanism within this case.

16           This concludes the summary of my rebuttal  
17   testimony.

18           MR. BENNINK: (Inaudible) Mr. Thill, to amend  
19   the Company's filed position concerning the Public  
20   Staff's recommendation for a 90-day unitization report.

21           COMMISSIONER BROWN-BLAND: Excuse me just a  
22   minute. Let me be sure -- did we miss the first part of  
23   Mr. Bennink's question? Mr. Bennink, could you repeat  
24   that?

1                   MR. BENNINK: Yes. The Company now requests  
2 permission of the Chair to have Mr. Thill do what he said  
3 he would like to do in his summary, which is to amend the  
4 Company's filed position concerning the Public Staff's  
5 recommendation for a 90-day report.

6                   COMMISSIONER BROWN-BLAND: Let us hear more  
7 about that. What are we doing?

8                   MR. BENNINK: That will be evident when Mr.  
9 Thill makes his request.

10                  COMMISSIONER BROWN-BLAND: All right. Go  
11 ahead.

12                  THE WITNESS: Aqua contests the Public Staff's  
13 assertion that the Company has been inconsistent, to the  
14 detriment of customers, regarding its plant unitization  
15 practices and firmly believes that the Company will  
16 prevail on the merits of this extremely complicated  
17 issue.

18                  However, with the Commission's permission, I  
19 recommend on behalf of Aqua, as an addendum to my  
20 rebuttal testimony, that if the Commission is so inclined  
21 and in lieu of reaching a decision on the merits based on  
22 the evidence of the record in this case, the Commission  
23 adopt the recommendation of Public Staff witnesses Henry  
24 and Junis, quote, "To order the Company to review its

1 procedures for determining when projects are completed,  
2 in service, and booked, and file the Company's findings  
3 of its internal practices in any plans to change the  
4 procedures within 90 days of the Commission's Final Order  
5 in this proceeding," closed quote.

6 This would allow Aqua and the Public Staff  
7 ample time to fully explore and address the UPIS issues  
8 prior to the Company's next rate case and either come to  
9 a consensus settlement or engage in further litigation  
10 regarding these issues in that case.

11 COMMISSIONER BROWN-BLAND: Mr. Bennink, you're  
12 on mute.

13 MR. BENNINK: That concludes Mr. Thill's  
14 summary. Ms. Sanford would now like to make a request of  
15 the Commission.

16 COMMISSIONER BROWN-BLAND: All right. Ms.  
17 Sanford, unmute.

18 MS. SANFORD: There. Did that do it?

19 COMMISSIONER BROWN-BLAND: Yes.

20 MS. SANFORD: Sorry. Thank you, Commissioner  
21 Brown-Bland and Commissioners.

22 I'm making a request this morning for the  
23 Commission to allow us to do some additional direct  
24 inquiry of Mr. Thill, and I would like to explain why.

1           The Public Staff yesterday, in Mr. Junis'  
2   testimony, for the first time in this proceeding and  
3   truly at what we heard a reference yesterday to what  
4   would be called "the eleventh hour," if not later,  
5   presented a host of representations, conclusions, and  
6   allegations concerning the use of their version or their  
7   vision of what the Power Plant asset management program  
8   can do, should do for Aqua.

9           The Public Staff's recently developed suite of  
10   concerns about these asset management issues have sprung  
11   up inside this proceeding while investigating deferred  
12   accounting, I believe, as Mr. Junis said. That's fine.  
13   Investigations do just that. They investigate. They  
14   find issues. They talk about issues. Yet this issue  
15   about Power Plant, which is a really important issue, has  
16   presumably eluded the Public Staff for the entirety of  
17   this case, from December through yesterday, and was first  
18   mentioned to and in front of the Company yesterday  
19   afternoon in this proceeding. This is in spite of their  
20   competing contention that this is a 10-year old -- 10-  
21   plus-year old issue.

22           Whether or not it previously eluded them,  
23   whether for whatever reason that this was first mentioned  
24   yesterday -- first mentioned in the presence of anybody



1 from Aqua, unless we're allowed to respond to it, and  
2 with some vigorous disputes with respect to the truth of  
3 what was said, unless Aqua is allowed to respond to it,  
4 it will result in a significant detriment and unfairness  
5 to the Company.

6           The issue about use of Power Plant in the asset  
7 management function clearly has become important in this  
8 case. It was obviously important and of a great deal of  
9 understandable interest in the room yesterday. To be  
10 fully transparent, the characterization of the Company's  
11 response to the Commission's Order in 2007 is bound up in  
12 this Power Plant conversation. Unless we are allowed to  
13 speak to it, I will -- the Company submits that there  
14 will be some extremely pertinent omissions from the  
15 Public Staff's view of the story.

16           We seek to avoid an end run around the  
17 Commission's procedures which are structured to require  
18 us all, over a lengthy period of time, with intensive  
19 conversations, with countless numbers of data requests,  
20 to refine and present openly and transparently the issues  
21 that arise in the case, whether they arise at the  
22 beginning or through this period of investigation, and to  
23 deal with them on record and with notice so that by the  
24 time it gets to the Commission, all parties have had an

1 opportunity to work together, separate views, on the  
2 major issues. That is not the case with respect to this  
3 Power Plant situation at this point in the proceedings.

4 For reasons of good practice, to ensure a  
5 clearer picture of contested facts and disputed  
6 insinuation, and to ensure fairness with this case, we  
7 request permission to conduct additional direct of Mr.  
8 Thill on the issues concerning Power Plant upon which Mr.  
9 Junis spoke yesterday. We believe the Company is  
10 entitled to be heard, and we believe that the Commission  
11 and this record and all parties are entitled to the same.

12 We considered yesterday, as we sought to figure  
13 out how to deal with this, about waiting until redirect,  
14 but in the spirit of the same fairness that we seek in  
15 this hearing with respect to this matter, we thought that  
16 would disadvantage our colleagues on the Public Staff  
17 side. We note in passing there was an earlier issue that  
18 was a surprise issue about mailing of notice. This is a  
19 far more serious issue and with very significant  
20 consequences and deserving of a better understanding by  
21 the Commission and by all of the parties, or at least the  
22 opportunity for the Company to attempt to state its view  
23 on the record.

24 There were -- it's a serious issue. There are

1 repeated use of some code language that insinuates  
2 deliberate attempts by Aqua to improperly advantage  
3 itself by disadvantaging its customers. This raises  
4 issues of integrity and transparency. And I won't go on  
5 and on, but we respectfully submit that in the interest  
6 of fairness to the Company and clarity of the record,  
7 that we be allowed to do some additional direct  
8 examination of Mr. Thill.

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

11 MR. GRANTMYRE: The Public Staff vigorously  
12 opposes this motion. You know, to file additional direct  
13 or present additional direct after the Public Staff  
14 witnesses have already testified is extremely unfair and  
15 it also is contradictory to the Commission's procedures  
16 and the way we present evidence in these cases. We would  
17 set a dangerous precedent if, in fact, the Company could  
18 put additional direct on after the Public Staff witnesses  
19 have already testified on the matter.

20 Second, you know, the Company just agreed to  
21 file a report, a 90-day report, and whatever they have to  
22 say could be included in their 90-day report. And, of  
23 course, the Public Staff will have the opportunity to  
24 file comments.

1           And in addition, this -- the Company has this  
2   program. They've had it for 10 years, Power Plant. They  
3   are very knowledgeable of the workings of it. And  
4   presumably, you know, this is a \$10 billion corporation.  
5   Aqua North Carolina is not, but the market cap on the New  
6   York Stock Exchange this morning was \$10.4 billion, and  
7   this same program is used in all those states, as best we  
8   could tell, for all their accounting. And the fact that  
9   they are surprised by this is inconceivable.

10           Now, they can put it in their report that they  
11   file if the Commission deems necessary to file that  
12   report and, of course, the Public Staff would respond,  
13   but for them to come in and have additional direct after  
14   the Public Staff has already testified is contrary to the  
15   practices before the Commission and extremely unfair.

16           As I said, they own this program. They know  
17   what options there are. I'm sure any software program  
18   has various options or additions, but we strenuously  
19   object to this procedure.

20           MS. SANFORD: May I respond?

21           COMMISSIONER BROWN-BLAND: Briefly, yes.

22           MS. SANFORD: And I will be brief. Thank you.

23   It is the Company's position that the unfairness was  
24   worked by the introduction of this significant topic with

1 a great deal of explanation which purports to say what  
2 Aqua can do and should do and with insinuations of the  
3 kinds of things that I mentioned, the code language and  
4 the insinuation of improper behavior. We do welcome the  
5 opportunity to file the report and to work with the  
6 Public Staff, the Attorney General, and the Commission to  
7 look at the facts of what this system can do, of what the  
8 impediments are to doing some of the things that the  
9 Public Staff insists should and could be done to look at  
10 a range of things.

11 We have said repeatedly, not initially, but  
12 repeatedly since then that we think this report and this  
13 inquiry by the cool light of a day and with time to do it  
14 is the right way to proceed, but nonetheless, there are  
15 things on the record in this case that are detrimental to  
16 the Company, and for that reason we retain our request to  
17 do the examination. Thank you.

18 COMMISSIONER BROWN-BLAND: I had another  
19 question. Just let me think for a minute. Commissioner  
20 Clodfelter.

21 COMMISSIONER CLODFELTER: Commissioner Brown-  
22 Bland, may I permitted to ask Ms. Sanford a question  
23 about the procedure she's proposing?

24 COMMISSIONER BROWN-BLAND: Just to the extent

1 it will clarify what she wants to do, yes.

2 COMMISSIONER CLODFELTER: That is the purpose  
3 of the question.

4 COMMISSIONER BROWN-BLAND: Yes, you may.

5 COMMISSIONER CLODFELTER: Ms. Sanford, I want  
6 -- I would like to hear you describe the difference --  
7 and it's a nuance difference -- so that I'm not just  
8 sitting here imagining it, the differences, but I want  
9 you to explain to me the differences between having Mr.  
10 Thill talk about this issue by way of direct --  
11 supplemental direct testimony instead of talking about  
12 it, the same issue, by way of rebuttal testimony. And I  
13 don't want to be trying to imagine what those differences  
14 are. I want you to tell me what you see as the  
15 differences in those two procedures.

16 MS. SANFORD: Well, --

17 COMMISSIONER CLODFELTER: Thank you,  
18 Commissioner Brown-Bland, for allowing me to ask the  
19 question.

20 MS. SANFORD: And thank you, Commissioner  
21 Clodfelter. Our dilemma yesterday was simply to figure  
22 out what's the most orderly, fair, and appropriate way to  
23 be able to speak to a topic about whose introduction and  
24 discussion was a big surprise to the Company and in a

1 significant way. We thought about waiting through the  
2 redirect process and examination that may take place  
3 today. Of course, we don't know what questions the  
4 Commission or the Public Staff will ask. And then as we  
5 thought about it, it seemed like the most straightforward  
6 way to do it was simply to ask to do some additional  
7 direct, and then everybody could fire at it or ask  
8 questions of it.

9 I say additional direct. Perhaps I should have  
10 said additional rebuttal. I will tell you that I didn't  
11 think to make a distinction there, and perhaps I should  
12 have chosen additional rebuttal instead of additional  
13 direct. As you say that, that does make a lot of sense  
14 right now. Just an inability to know what to do on our  
15 part, and we picked one. Thank you.

16 COMMISSIONER CLODFELTER: Thank you.

17 MS. SANFORD: Sure.

18 COMMISSIONER BROWN-BLAND: Mr. Grantmyre,  
19 anything further? You're on mute, Mr. Grantmyre.

20 MR. GRANTMYRE: We have nothing further.

21 COMMISSIONER BROWN-BLAND: All right. This  
22 part of the process is a little disturbing to the  
23 Commission in that we do have a process, as Mr. Grantmyre  
24 indicated, and this testimony came out on cross. There

1 was no objection at the time and no taking that on, but  
2 nevertheless, it's out now. It would be helpful to the  
3 Commission to have this issue fully addressed. We have  
4 everyone before us at this time.

5 I -- with all the time that we had prior to  
6 this -- I mean, from the initial time this case was set  
7 and set aside, it would seem that the parties would have  
8 had time to get together and bring these issues up with  
9 one another. This is something that the Commission was  
10 hopeful for. There were many reasons that we had the  
11 extra time, and this would have been one of them.

12 But that being said, my inclination is to allow  
13 the Company to do additional rebuttal, and the Public  
14 Staff will be allowed to cross examine, to the fullest  
15 extent possible. If this needs to be addressed further  
16 in post-hearing filings, I'm sure all parties will do so,  
17 and even beyond this hearing I would encourage you to  
18 work together. We do not -- these parties have a -- to  
19 my own belief, these parties have a good working  
20 relationship. I would like to see that continue and not  
21 cast aspersions at one another.

22 So with that said, I will allow the additional  
23 rebuttal.

24 MR. GRANTMYRE: Commissioner Brown-Bland, the



1 Public Staff would move that we would be able to, if we  
2 choose, to present an additional witness on this, if we  
3 choose so, and that witness could be presented on Monday  
4 because it would give us time to see what their rebuttal  
5 is. They prefiled rebuttal, and we have an opportunity,  
6 normally about 15 days. Now, if they're going to add  
7 additional rebuttal now, we should have an opportunity to  
8 respond to it.

9 COMMISSIONER BROWN-BLAND: I will allow the  
10 Public Staff to respond inasmuch as the case continues.  
11 And just so everyone knows, this case is still set to go  
12 at least through Tuesday.

13 MR. GRANTMYRE: We would request that we  
14 respond early next week.

15 MS. SANFORD: And just to -- I guess to further  
16 complicate this, and to the extent that the Public Staff  
17 does make a subsequent filing, the Company would reserve  
18 its opportunity to go last if a response is required.

19 COMMISSIONER BROWN-BLAND: This is on rebuttal,  
20 so I don't anticipate the Public Staff will make another  
21 filing. They're asking to just, in the normal course of  
22 litigation, they would -- their response would have been  
23 on the stand.

24 MS. SANFORD: So additional inquiry of Mr.

1 Thill; is that what we're saying?

2 COMMISSIONER BROWN-BLAND: No. They're asking  
3 for an additional witness, if necessary. Their witness  
4 would have come in the middle here.

5 MS. SANFORD: Well, let's --

6 MR. GRANTMYRE: We're asking for us to be able  
7 to present our witness.

8 MS. SANFORD: Well, I --

9 COMMISSIONER BROWN-BLAND: The additional  
10 witness should be the same. Actually, let me -- let's  
11 reverse. Now, this is on rebuttal, Mr. Grantmyre, so I'm  
12 mistaken. This is on rebuttal, so the last party to go  
13 on this will be the Company, so I'm reversing course on  
14 that.

15 MS. SANFORD: Thank you, Madam Chair. If it's  
16 appropriate, I will begin with this, and we'll move as  
17 quickly as possible through it. Excuse me. And for the  
18 record, we share your disappointment. We apologize for  
19 coming to you with this. It was a surprise for us. We  
20 didn't think it would be necessary. And we will attempt  
21 to do the business we need to do and to do it quickly,  
22 and then be available for questions from all parties and  
23 the Commission.

24 FURTHER DIRECT EXAMINATION BY MS. SANFORD:

1 Q Mr. Thill, are you online?

2 A I am.

3 Q And you continue to be sworn in this  
4 proceeding, which I think you were reminded of this  
5 morning. Did you hear Mr. Junis' testimony yesterday  
6 about Power Plant?

7 A I did.

8 Q He purported to know a lot about its capabi---  
9 oh, I'm not sure what the background is. I'll try to  
10 mute in between questions. He purported to know a lot  
11 about its capabilities and Aqua's use of it, and Aqua's  
12 failure to use certain functionality; is that correct?

13 A That's correct.

14 Q Have you previously in this proceeding heard  
15 anything from anyone at the Public Staff about Power  
16 Plant's use being an issue or a solution or anything else  
17 in this case?

18 A I have not.

19 Q Have you had conversations with Mr. Junis and  
20 others at the Public Staff about the entire, we'll call  
21 it, UPIS issue?

22 A Certainly. A number of conversations that were  
23 robust.

24 Q Data requests?

1           A     Yes.

2           Q     Discussions and explanations, but no mention of  
3     Power Plant?

4           A     That's correct.

5           Q     So you weren't -- were you a source -- I guess  
6     I'm asking the same question a different way. Were you  
7     or anybody else in the Aqua team, to your knowledge, a  
8     source of any information to the Public Staff about how  
9     Power Plant works for you?

10          A     Well, not specifically about Power Plant, but  
11     our procedures and how generally we work.

12          Q     I want to talk a little bit about the longer  
13     view of Power Plant that was tied into the conversation  
14     yesterday. When was Power Plant first utilized by Aqua?

15          A     I believe that started in about 2009/2010, is  
16     my understanding.

17          Q     And was PowerPoint -- Power Plant -- I knew I'd  
18     call it PowerPoint -- Power Plant is an asset management  
19     program; is that what you call it?

20          A     Yes.

21          Q     And why did Aqua undertake to utilize Power  
22     Plant?

23          A     Well, I believe it was talked about yesterday,  
24     that prior to Aqua making that decision, there had been a

1 number of acquisitions, and in that 2008 sort of time  
2 frame the acquisitions were coming in from disparate  
3 systems. And initially they were tracking this all via  
4 Excel spreadsheets. And as much as -- you know, I'm an  
5 accountant, so I love Excel, there gets to a point where  
6 it's no longer the right solution. And so -- and there  
7 was a lot of issues that the Commission or the Public  
8 Staff and then through the Commission had raised during  
9 the -- I think the 2008 rate case, 274, there were a lot  
10 of issues and there had to be a better solution, and that  
11 was one of the recommendations that came out of those  
12 cases, and Power Plant was ultimately selected as the  
13 solution to that.

14 Q And some of those issues surfaced during the  
15 period of time that Aqua consolidated its disparate  
16 systems, correct?

17 A That's correct.

18 Q Aqua was formed by the purchase, as are many  
19 water and wastewater companies, by the purchase of a  
20 number of cat and dog systems from all around which  
21 explains the dispersion of your facilities, right, small  
22 systems, large systems, developer systems?

23 A That's accurate.

24 Q And so Aqua had, along about mid-2000s,

1 consolidated those systems into a more efficient, more  
2 organized corporate structure; isn't that right?

3 A I believe that's correct.

4 Q And at that time when they did that, they had  
5 to address a disparate number of accounting systems,  
6 whether they were Excel or back of the envelope or  
7 whatever everybody was doing, that those had to be  
8 absorbed and reconciled, correct?

9 A That's correct.

10 Q Power Plant was the solution to those obvious  
11 problems that surfaced very clearly during the  
12 consolidation that one might expect to be the case,  
13 right?

14 A That's correct.

15 Q So Aqua has -- Aqua was told in the Orders that  
16 were discussed yesterday to basically get on it and clean  
17 it up about asset allocation to do a number of things and  
18 get your records straight and Power Plant was -- the  
19 implementation of Power Plant was Aqua's way to do that,  
20 correct?

21 A That is correct.

22 Q And from -- and you were -- discussed  
23 yesterday, it's a matter of record, the Commission issued  
24 a number of Orders, required you to file reports,

1 required a good -- a lot of attention to compliance  
2 during that period of time. And you've read those Orders  
3 and filings; is that correct?

4 A I have read some of those, yes.

5 COMMISSIONER BROWN-BLAND: Ms. Sanford?

6 MS. SANFORD: Yes.

7 COMMISSIONER BROWN-BLAND: I'm not sure what  
8 happened there, and I think the court reporter got  
9 everything, but just be careful turning your head or  
10 moving because --

11 MS. SANFORD: Oh, I'm sorry. Okay.

12 COMMISSIONER BROWN-BLAND: -- some words were  
13 sort of dropping.

14 MS. SANFORD: Okay. Thank you for that.

15 COMMISSIONER BROWN-BLAND: Thank you.

16 MS. SANFORD: Let me move my papers over here.

17 Q So we're mid-2000s, moving towards 2009. Power  
18 Plant was implemented in 2009?

19 A 2009/2010, in that area.

20 Q Right.

21 A I know it was not -- it's -- as always, when  
22 you're talking about a large system, it's not a matter of  
23 just flipping a switch, so I understand that it took  
24 about a year to implement.

1           Q     And so let me -- I'm going to move -- I'm going  
2     to move as quickly as I can towards a close of this. So  
3     your understanding from -- is it your understanding,  
4     based upon an internal investigation, that Aqua  
5     employees, Tammy Bernard, Susan Wilburn, worked with the  
6     Public Staff during that period to implement Power Plant  
7     and to produce the kinds of results that the Commission  
8     ordered?

9           A     That's my understanding. It would have --  
10    locally, it would have been Tammy and Susan as the local  
11    experts, if you will. We used Accenture as a third-party  
12    consultant to help with that process and, of course, our  
13    folks in Pennsylvania, because this was a centralized  
14    project, were part of that as well.

15          Q     And so reports were filed, reporting  
16    requirements were suspended. These are matters of the  
17    Commission record. 2009 or so Power Plant was  
18    implemented, recognizing what you say about there being,  
19    you know, some perhaps period of time that allowed --  
20    doesn't allow you to pick a precise date, but around that  
21    time it was implemented, and from 2009 until March of  
22    2019 are you aware of any concerns expressed by the  
23    Public Staff about Power Plant asset management system?

24          A     I'm not aware of any communication.



1 Q When did you come with the Company?

2 A January of '19.

3 Q So you didn't know Kathy Fernald; is that  
4 correct?

5 A I did not.

6 Q But have you heard about Kathy Fernald who was  
7 the head of the Accounting Division for Water for the  
8 Public Staff?

9 A She's a bit of a legend, yes.

10 Q Is it your understanding from your colleagues  
11 at Aqua that they worked with Kathy in the development of  
12 these procedures and the implementation of it?

13 A It is my understanding that Kathy was very  
14 involved, yes.

15 Q In March of 2019 you heard from the Public  
16 Staff, for the first time over this period of time, about  
17 some new problems with asset management, is that correct,  
18 in the WISC docket?

19 A Well, I think that's -- it's perhaps a stretch  
20 to say "new problems." What we heard was that there were  
21 concerns about a couple of assets that were part of that  
22 filing. So it wasn't a discussion about processes at  
23 that time. It was a discussion about specific assets.

24 You know, let me go further with that because I

1 think it's important to understand that I don't want to  
2 misclass it as just, you know, those single assets  
3 because whenever you've got a problem with assets, that  
4 means something maybe wasn't a hundred percent within the  
5 processes. And so I think it's clear to say or fair to  
6 say that when that came up, we started doing some  
7 analysis on our side about, you know, what should be  
8 different, you know, why did that happen.

9 Q Right.

10 A And we did -- internally, we started a tracking  
11 process, a signoff, and -- now, this is just for our  
12 engineering projects, but the engineering team would go  
13 through their process. When they were convinced that the  
14 job was complete, they would sign off on a form. They  
15 would pass it off to operations. When operations  
16 indicated that they were complete, they would then sign  
17 off and send that over to Tammy so that she could then  
18 unitize the project.

19 Q So you did respond to the Public Staff's  
20 concern in March of 2019 and you looked at Power Plant  
21 and you looked at your processes; is that correct?

22 A Yeah. This wasn't done with the Public Staff,  
23 so they wouldn't necessarily have had knowledge about  
24 that --

1 Q Right, right.

2 A -- but this would have come forward in, you  
3 know, later WISC/SSIC documents, but it's something that  
4 we decided internally that we needed to review.

5 Q And then the next conversations about asset  
6 management concerns arose what I call inside this case,  
7 during the investigation of this case; is that correct?

8 A I think that's fair.

9 Q I think Mr. Junis said -- did you hear him say  
10 that he was actually looking at some deferred accounting  
11 issues and found some of these things that raised his  
12 concerns about the asset management policy?

13 A That's correct.

14 Q Correct. And so you -- taking us back to where  
15 we began and where I will conclude this, you, in the  
16 course of conversations with the Public Staff, have  
17 exchanged information and data requests, you have had  
18 conversations about this asset management, you have  
19 pushed to make your case and your reasons for doing  
20 things and the complexity, you pushed to make that known,  
21 but you and the Public Staff don't agree, right?

22 A I think that's fair.

23 Q Let's see. Mr. Thill, I think -- are you  
24 muted?

1           A       I think your statement is fair that the Public  
2       Staff and the Company have not agreed.

3           Q       But as you look at -- as you look at the  
4       evolving nature of both your expenditures, the number of  
5       projects, the level of disagreement with the Public  
6       Staff, and your own concern as you look at these things  
7       about whether there are better ways to do it, you've  
8       agreed to file this report, correct?

9           A       That's correct.

10          Q       And is it correct that Aqua believes this  
11       report will be the basis -- and not a first step because  
12       you've already taken first steps, but the next proper  
13       step in an ongoing evaluation of these issues?

14          A       Yeah. As the Public Staff's concerns have  
15       evolved, obviously, our response has to evolve as well,  
16       and so we'll continue to work forward towards that.

17          Q       And so the issues now being discussed with  
18       respect to what Power Plant can do are the kinds of  
19       things you would want to talk about and present to the  
20       Commission and to the parties in your report, correct?

21          A       That's correct. Power Plant is a system used  
22       by a lot of utilities. It's used by, you know, other  
23       Aqua subsidiaries. But each subsidiary is, you know,  
24       regulated differently, so there are specific issues that

1 are going to apply here to North Carolina's version than  
2 maybe elsewhere, and that's something that needs further  
3 review on our side.

4 Q And these asset management issues and programs  
5 and controls, do they evolve over time?

6 A Certainly.

7 Q Technology changes, right?

8 A Yeah. You're always moving forward.

9 Q Characteristics of the Company and their number  
10 of projects change, right?

11 A Certainly. The complexity that we deal with  
12 every day.

13 Q And the last question is this, so the asset  
14 management problems that are being discussed now -- I say  
15 problems -- you don't want me to say problems and I  
16 understand that -- but the asset management issues that  
17 are being discussed right now are not the same ones that  
18 were being discussed in the mid-2000s, are they?

19 A I don't believe so.

20 MS. SANFORD: I thank everyone for their  
21 indulgence of this examination, and I have no further  
22 questions.

23 Mr. Bennink is going to -- well, no. I guess  
24 at this point Mr. Thill is available for cross.

1 MR. BENNINK: That's correct.

2 MS. SANFORD: Thank you.

3 MS. TOWNSEND: No questions by the Attorney  
4 General of Mr. Thill.

5 COMMISSIONER BROWN-BLAND: Thank you, Ms.  
6 Townsend.

7 MR. GRANTMYRE: Public Staff would request that  
8 the Commission take Judicial Notice of the rate cases  
9 that Aqua had during this period, and I'm not sure of the  
10 numbers. I think 274 was one of them, and I think there  
11 was another one before 319. We will give you those  
12 numbers, but we would ask that the Commission take  
13 Judicial Notice and the ordering paragraphs in particular  
14 that -- where the Company was ordered to make  
15 modifications to its plant in service or plant systems.

16 COMMISSIONER BROWN-BLAND: Mr. Grantmyre, the  
17 Commission will take Judicial Notice of those cases at  
18 your request and on the request that you provide those  
19 numbers to us before the end of this case.

20 MR. GRANTMYRE: Thank you. Now, just a couple  
21 of questions on this additional testimony.

22 CROSS EXAMINATION BY MR. GRANTMYRE:

23 Q You said many of the Aqua America states use  
24 Power Plant; is that correct?

1           A       I believe they do.

2           Q       And -- but you said it's modified for each  
3       jurisdiction to some extent because of -- I believe the  
4       Company has already mentioned that North Carolina is one  
5       of the states that requires system-specific plant  
6       accounts. That is, if a water tank goes in at, say,  
7       Bayleaf, it's on the plant records for Bayleaf, correct?

8           A       That's my understanding.

9           Q       Now, you understand in Mr. Junis' testimony  
10      that Duke Energy Carolinas, Duke Energy Progress, and  
11      Piedmont Natural Gas are all North Carolina companies  
12      regulated by this Commission?

13          A       I do.

14          Q       Now, there was also -- you had a number of  
15      comments or discussions with the Public Staff during this  
16      rate case, and the Public Staff has consistently stated  
17      to you that they thought a number of your projects were  
18      being recorded in the incorrect year, that is, projects  
19      that were recorded on your books as in service in 2020  
20      were -- actually went into service in 2019; isn't that  
21      correct?

22          A       There had been some concern about that, yes.

23          Q       And hasn't that been the main concern of the  
24      Public Staff, is to the correct in service dates when

1 depreciation should begin?

2 A Well, I would say no to that because the  
3 discussion about when depreciation should begin was  
4 really brand new in the summary that Mr. Junis provided  
5 yesterday. Prior to that discussion was about in service  
6 date versus unitization date. And depreciation has -- in  
7 everything we've provided, we've been very specific that  
8 depreciation has been based on unitization date.

9 Q Which is not the same as in service date?

10 A That is correct.

11 Q And you mentioned that the Public Staff first  
12 brought this to the Company's attention -- they had it in  
13 March of 2019, correct?

14 A That was -- we discussed it with regards to  
15 that WISC/SSIC filing, yes.

16 Q Yes. And is it your understanding that the  
17 Company and the Public Staff has been advised that we  
18 should not litigate issues at the WISC/SSIC presentations  
19 to the Commission, that they should be litigated at a  
20 different time?

21 A I don't know that.

22 Q And would you agree that this rate case, this  
23 general rate case, is the first proceeding before the  
24 Commission since March of 2019 that litigated issues were



1 presented?

2 A I would agree with that time frame, yes.

3 MR. GRANTMYRE: I have no further questions on  
4 his additional direct testimony. And if I could move on  
5 to his prefiled rebuttal testimony.

6 Q Mr. Thill, on the bottom of page 3 of your  
7 rebuttal testimony you criticize Mr. Junis' testimony  
8 that the pilot is limited and a nonrepresentative sample  
9 of residential customers. Now, yesterday you admitted  
10 you had -- that customers consumed roughly in the pilot  
11 7,200 gallons a month per customer, approximately, and  
12 the remaining customers in the Aqua Uniform are around --  
13 a little less than 4,200 gallons per month per customer.  
14 So, again, you believe this pilot is representative of  
15 the entire Aqua Uniform customer base?

16 A No. I wouldn't say that it is representative  
17 of the entire customer base, but it is representative of  
18 those people that we're trying to induce conservation  
19 from. So as I say in my testimony, it doesn't do a lot  
20 of good for us to try to extrapolate any information from  
21 a household that is using 3,000 gallons, and we're going  
22 to provide them, you know, a \$2 reduction in their bill.  
23 What happens with them, because we're instituting this  
24 block rate where their rates are going down, really

1 doesn't give us a lot of information. You know, I don't  
2 think that 3,000 gallon a month user is going to see his  
3 bill reduced by \$2 and say, you know, wow, what a  
4 windfall; I'm going to go out and I'm going to, you know,  
5 extend my shower time, I'm going to flush the toilet  
6 more. I don't think that that provides us a lot of  
7 information.

8           The people we care about are the people in  
9 Bayleaf, the people who are using, you know, on average  
10 7,200 gallons, as you said. In the summertime there are  
11 over 12,000 on average per month. Those are the people  
12 where we're going to get the conservation that we're  
13 looking for that's going to provide the operational  
14 relief, that's going to prevent, you know, further  
15 requirements from the capital spend. That's who our  
16 target is, so they are representative of that target.

17           Q     Now, I'd refer you to page 4 of your testimony.  
18 Would you please read line 17 and 18, beginning with the  
19 word "Additionally?"

20           A     "Additionally, conservation inducing pricing  
21 for low users places a greater economic burden on those  
22 who can least afford it."

23           Q     Now, do you believe that's a correct statement?  
24 I believe you have a contradictory statement later in

1 your testimony. Do you still stand by that statement?

2 A Sorry. I'm trying to grab it in the full  
3 context, so bear with me one moment, please.

4 Q Okay. I believe the -- what I believe is  
5 contradictory -- I'll help you out -- is on page 6,  
6 beginning on line 2, where you have the -- the sentence  
7 starts with "This group would be."

8 A So to the extent that they are contradictory, I  
9 would go with the one on page 6. I believe that -- and  
10 I'll read that, if that's acceptable for you. "This  
11 group would be the primary" -- let's see -- by "This  
12 group," let me clarify that these are the low volatility  
13 lower users. "This group would be the primary benefactor  
14 of the initial conservation rates as they have a lower  
15 than average consumption pattern and would therefore  
16 benefit from reduced volumetric cost for Block 1  
17 consumption, with limited exposure to increases in Blocks  
18 2 through 4."

19 Q You were talking about a low user, that \$2  
20 a month saving, but would you agree that a customer at  
21 the poverty level or just above the poverty level, that a  
22 \$2 savings per month may be meaningful for that customer?

23 A Yeah. I don't know how much \$2 makes, but, you  
24 know, I won't speak to those people.

1           Q     Now, with respect to -- you were testifying  
2     yesterday that you went to the actual water tariffs or  
3     water rate schedules for the seven municipal systems; is  
4     that correct? Is that your testimony?

5           A     Yeah. I was looking at their online profile,  
6     so it's not part of a true tariff, but whatever is on  
7     their websites.

8           Q     Will you accept, subject to check, when they  
9     post on their website what purports to be their water  
10    rates schedules that there's a high probability that's  
11    correct?

12          A     I would hope so.

13          Q     And in particular Charlotte, you had mentioned  
14    Charlotte in your testimony. You did a comparison of  
15    Charlotte with -- I believe it's the Fayetteville system,  
16    Fayetteville Public Works; is that correct?

17                   COMMISSIONER BROWN-BLAND: Just a minute.  
18    There was some noise in that. Could you repeat, Mr.  
19    Grantmyre?

20          Q     Did you compare Charlotte Water with the  
21    Fayetteville Public Works as far as the characteristics  
22    of increasing block rates?

23          A     I did compare within two different consumption  
24    levels, yes.

1           Q     And did you look at the tiers in Charlotte  
2     Water of what they have, how many gallons are in each  
3     tier?

4           A     Did I look at that at the time?   Yes.

5           Q     And would you accept, subject to check, that  
6     the current rate schedule for Charlotte Water, beginning  
7     July 1 of 2020, has the first tier which is zero gallons  
8     to 2,992 gallons?   That is the first tier?

9           A     Subject to check.

10          Q     And the second tier is 200 -- I'm sorry --  
11     2,293 gallons to 5,984 gallons?

12          A     Subject to check.

13          Q     And, again, the price -- Charlotte lists prices  
14     in hundred cubic feet, but the first tier was a hundred  
15     -- \$1.69 per hundred cubic feet.   Would you accept that,  
16     subject to check?

17          A     Sure.

18          Q     And the second tier the price is \$2.18 per  
19     hundred cubic feet?

20          A     Subject to check.

21          Q     And the third tier -- will you accept, subject  
22     to check, the third tier is 5,984 gallons to 11,968  
23     gallons?

24          A     Subject to check.

1           Q     And above -- the last tier they have is Tier 4,  
2     and that has all consumption above 11,969 gallons?

3           A     Subject to check.

4           Q     And the price for the fourth tier is \$9.55 per  
5     100 cubic feet of water?

6           A     Subject to check.

7           Q     And if we did the --

8                   COMMISSIONER BROWN-BLAND:   Just a moment.

9     Witness Thill, you're so -- trying to help us so much,  
10    you're quick on the trigger with your mute button.  
11    You're clicking yourself off just a little bit before the  
12    end, so just slack up a little bit.

13                  THE WITNESS:   All right.   I'm sorry.   The air  
14    conditioning went on, and I know that causes a little  
15    static in the back, but I'll try to be mindful.

16                  COMMISSIONER BROWN-BLAND:   Thank you.

17           Q     Now, with Tier 4 will you accept the math that  
18    the differential between Tier 4 and Tier 1 is \$7.86 per  
19    100 cubic feet?

20           A     I'll trust your math.

21           Q     You're getting a lawyer's math here, so, you  
22    know, you don't necessarily have to agree with it.

23           A     But I don't have that in front of me, so I  
24    can't review it all real quickly.

1           Q     Okay. And would you agree that the percentage  
2     differential, that Tier 4 is 565 percent greater than  
3     Tier 1?

4           A     I'll have to trust that.

5           Q     And, also, I'm sure you looked at Raleigh since  
6     that is the second biggest system in the state?

7           A     Yes.

8           Q     And I will not go through all the tiers, but  
9     would you agree Raleigh only has three tiers?

10          A     Yeah. All that I did is that I looked for the  
11     general idea that they're all block rate and they're all  
12     very different, but as far as what those numbers are, I  
13     don't know.

14          Q     And would you accept, subject to check -- I'll  
15     get through this quick -- that Tier 3, which is the last  
16     tier for Raleigh, all consumption above 7,481 gallons per  
17     month is billed at the Tier 3 highest rate?

18          A     That's sounds correct.

19          Q     And based on your evaluation of these  
20     companies, you know, you used the seven largest, and it's  
21     in your testimony that each of them is somewhat  
22     different; is that correct?

23          A     Yes.

24          Q     Both in the size of the tiers, number of

1 gallons included, and the pricing differential about how  
2 much it jumps to some extent?

3 A That's correct.

4 Q And you would also agree that these cities that  
5 have this -- these increasing block rates, without  
6 getting too -- do you live in Cary or Raleigh or where do  
7 you -- just in general, where do you live?

8 A Yeah. I get my water out of Chatham County.

9 Q Okay. So you're not in a city, then?

10 A Not for that purpose.

11 Q Okay. And are you an Aqua customer?

12 A For sewer only.

13 Q I know where you live now. Thank you. I won't  
14 bring it up, though. It's a nice neighborhood.

15 A Well, we've enjoyed it.

16 Q Will you agree, then, the City of Raleigh and  
17 most of these cities have a wide range of customers as  
18 far as demographics, socioeconomic, income, and size of  
19 houses and sizes of lawns? There's a diversity within  
20 these cities. Would you agree to that?

21 A I would expect so.

22 Q And would you agree that Aqua North Carolina  
23 would have the capacity to design an inclining block rate  
24 structure that could cover all of these demographics or



1 at least come reasonably close?

2 A I guess they can create whatever they need to,  
3 yes.

4 Q And if, in fact, it was created statewide for  
5 all Aqua systems in the next rate case, then it could be  
6 tweaked in a subsequent rate case to have a better  
7 inclining block rate to achieve the goals. Would you  
8 agree to that?

9 A I would condition that, that to the extent that  
10 the Company is coming back for rates every, you know, 15  
11 to 18 months, it's still going to take multiple rate  
12 cycles to understand what sort of tweaks would be  
13 required.

14 Q But this way if it's statewide, it would  
15 involve all the customers rather than just this small  
16 select group of high consumers; isn't that correct?

17 A It is correct that the risk that currently  
18 would only exist to the pilot group would now extend to  
19 the entire customer base.

20 Q Excuse me. I'm skipping over some pages which  
21 hopefully will get us to the finish line sooner. Now,  
22 again, we've dealt with this, so I'll just ask it very  
23 quickly. In their next rate case Aqua could apply for  
24 the CAM and have the Commission approve the CAM and,

1     therefore, any shortfalls by a systemwide inclining block  
2     rate would be -- provide stable revenues for Aqua.  Would  
3     you agree with that?

4           A     No.  I wouldn't call it stable revenues because  
5     it still requires a year of evaluation before any deficit  
6     would be made up, so the corporation would have to fund  
7     that deficit for at least a year.

8           Q     But that would be the carrying cost, correct?

9           A     Carrying cost, assuming that, you know, to this  
10    point I don't think that any of the proposals I've seen  
11    from the Commission or from the Public Staff included a  
12    carrying cost on any deficit for the Company, but if that  
13    was included, then they would be made whole in that  
14    process.

15          Q     Now, on page 12 of your testimony, lines 10  
16    through 13, you criticize or you disagree with Public  
17    Staff witness Junis that this is prejudicial to  
18    customers' bills and discriminatory because they have  
19    different rates than other customers that are similarly  
20    situated.  Do you agree with that?

21          A     That's correct.

22          Q     Now, you understand that Fairways has a  
23    different rate structure than Aqua North Carolina Uniform  
24    rate customers, correct?

1           A       That is correct.

2           Q       And they have a different rate base and  
3       different operating expenses, although there are some  
4       common allocations; isn't that correct?

5           A       That is correct.

6           Q       Now, with regard to Brookwood, the same  
7       situation, they have different rate base, different  
8       operating expenses, although there are some common  
9       allocations, correct?

10          A       Yeah. And Brookwood's is that the differences  
11       are so strong that they haven't been able to be  
12       consolidated in Uniform rates yet.

13          Q       Now, with regard to your Uniform rate  
14       customers, you have Aqua Uniform rate customers water and  
15       Aqua Uniform rate wastewater customers, don't you?

16          A       Yes.

17          Q       And you have one big rate base for all those  
18       systems, although you have system specific -- you have  
19       plant records that show each system that for ratemaking  
20       purposes it's one big rate base; is that correct?

21          A       Yeah. The plant records would be by system,  
22       the expense records are not, but it all is consolidated.

23          Q       And you were not here several years ago, but  
24       one of the reasons the Commission requires plant specific

1 or system-specific plant records is so that calculations  
2 could be made if, in fact, the Company sells a system to  
3 a government unit and, therefore, the Commission and  
4 Public Staff and Company could determine what the gain on  
5 sale is. Are you aware of that, or you were not involved  
6 in any of those proceedings?

7 A Yeah. I was not involved in any of that.

8 Q Now, I know you're not a lawyer, but Mr. Junis  
9 has raised the issue, and there was questions yesterday  
10 about his different wastewater rates, that some customers  
11 would be metered because they have a water meter and  
12 others would remain flat rate, and he said he did not  
13 believe that would be discriminatory because there was  
14 reasonable differences between access to information.  
15 Now, have you ever read G.S. -- North Carolina General  
16 Statute 62-140(a) that's entitled "Discrimination  
17 prohibited"?

18 A I missed that one.

19 Q Okay. Would you accept, subject to check, and  
20 I'll read the second sentence, it says "No public utility  
21 shall establish or maintain any unreasonable" -- I  
22 emphasize that word -- "difference as to rates or  
23 services either as between localities" -- and I emphasize  
24 that -- "or as between classes of customers."

1           Now, wouldn't you say that your pilot inclining  
2   block rate has different rates for these four localities  
3   than all the other Aqua Uniform rate systems?

4           A     Yeah. I can't opine on the legal  
5   differentiation there.

6           Q     And although -- okay. And we're going to move  
7   on to rate design, and I refer you to page 26. And,  
8   again, just to make sure you agree, that the EF---  
9   Environmental Finance came out with an 83 percent or 81  
10   percent fixed cost on providing wastewater service and 89  
11   cent (sic) -- 89 percent for waste--- well, I get them  
12   confused. One was 81 and one was 89. Do you agree with  
13   that?

14          A     Yeah. I believe it's 89 on the water side and  
15   I think it's 83 on -- 81 or 83 on the wastewater.

16          Q     Again, once you implement the CAM, you would be  
17   somewhat protected on your revenue streams, correct?

18          A     We would be protected, yes.

19          Q     And you would agree that when you have customer  
20   growth on an existing system that does not require  
21   additional capital spending for that customer, that 83  
22   percent of the revenues collected from that customer do  
23   not go towards paying any increased cost other than cost  
24   that normally arise from year to year, like you said, for

1 salaries and increase in gasoline or increase in  
2 chemicals, but -- increase in price of chemicals. Would  
3 you agree with that?

4 A Well, I would phrase it that the future  
5 customers would provide future revenue that can cover  
6 future cost of all kinds.

7 Q Okay. And you've been with Aqua now for about  
8 a year, but do you understand Aqua normally buys -- has a  
9 developer install the system with Aqua supervising the  
10 installation?

11 A That is my understanding.

12 Q So if there's a new subdivision or a contiguous  
13 extension, the normal Aqua contract is that the developer  
14 installs the system pursuant to plans and specifications  
15 approved by Aqua and the Public Water Supply Section  
16 which regulates water, that's DEQ, and Aqua oversees the  
17 installation?

18 A That would seem right.

19 Q And the developer, when he installs the system,  
20 he would install the distribution lines, the customer  
21 service lines, drill any wells if there need to be wells  
22 drilled, and any storage; is that correct? I know this  
23 isn't your field, but --

24 A Yeah. Again, it would seem right.

1           Q     And that would all be contributed to Aqua, so  
2     it would all be what we call contribution in aid of  
3     construction, correct?

4           A     Assuming there's no CIAC that also goes against  
5     that.

6           Q     But Aqua normally, in all its contracts or  
7     almost all of it, has a purchase price, you know, \$500  
8     per connection, 1,000, and they vary, but that would be  
9     Aqua's cost in the system, so that's Aqua's investment;  
10    is that correct?

11          A     That's correct.

12          Q     And would you agree that it's based on Mr.  
13    Becker's testimony the other day that Aqua's capital  
14    expenditures primarily are one of several categories.  
15    One is replacing plant that's been worn out and  
16    contributed plant in the past or may have been Aqua's  
17    investment, but the plant needs to be replaced and Aqua  
18    replaces it. Would you agree that's a main category?

19          A     It would seem that that should be, yes.

20          Q     And then there's another category whereby Aqua  
21    is making improvements to the system, such as an iron and  
22    manganese removable filter, primary drinking water  
23    filters where there is some violation of a primary  
24    drinking water such as radiological, and possibly

1 improved controls for the system to have better -- better  
2 controls of the pumping system and also reporting system  
3 to Aqua. And would you agree that's a big area that they  
4 spend money on, or have in the past?

5 A I would.

6 COURT REPORTER: Excuse me. I'm getting a lot  
7 of static and I did not hear Mr. Thill's answer.

8 COMMISSIONER BROWN-BLAND: Did you get  
9 everything you needed or do you need them to back up?

10 COURT REPORTER: I did not get Mr. Thill's  
11 answer, but I'm hearing a lot of static all of a sudden  
12 for some reason.

13 COMMISSIONER BROWN-BLAND: All right. Can you  
14 -- Mr. Grantmyre, might you ask again and then Mr. Thill  
15 answer the last question? You're -- you went -- there  
16 you go.

17 MR. GRANTMYRE: That question was so long, I've  
18 forgotten it. Could I just withdraw it then?

19 COMMISSIONER BROWN-BLAND: It's up to you.

20 MR. GRANTMYRE: I'll just withdraw the  
21 question.

22 COMMISSIONER BROWN-BLAND: Mr. Thill, do you  
23 remember your answer?

24 THE WITNESS: I think I actually (inaudible),



1 but I don't remember the question either.

2 COMMISSIONER BROWN-BLAND: All right.

3 MR. GRANTMYRE: It must not be a very good  
4 question, so --

5 COMMISSIONER BROWN-BLAND: All right. Madam  
6 Court Reporter, are you still hearing the static or  
7 noise, because I was not hearing it.

8 COURT REPORTER: I am. I don't have anything  
9 here that could be interfering, so I'm not sure why it  
10 just started, because it was very clear.

11 COMMISSIONER BROWN-BLAND: Well, it's time --  
12 it's right at the time I was going to take a break  
13 anyway. Let's take a 15-minute break, and I would ask  
14 the host to check around to see what it is that he knows  
15 or can discover and also to work with you, Ms. Garrett.  
16 And let's come back on the record at 10:55. Everyone go  
17 on mute and shut down your camera.

18 (Recess taken from 10:41 a.m. to 11:00 a.m.)

19 COMMISSIONER BROWN-BLAND: All right. Let's  
20 come back to order and go on the record. Mr. Grantmyre,  
21 we're with you.

22 MR. GRANTMYRE: We would request this exhibit  
23 be identified as Public Staff Thill Rebuttal Cross  
24 Examination Exhibit 1, and it goes from page 67 in the

1 handout that we gave, to page 92, and it's the MBER  
2 working paper series.

3 COMMISSIONER BROWN-BLAND: All right. And is  
4 this to be identified as Public Staff Thill Rebuttal  
5 Cross Examination Exhibit 1?

6 MR. GRANTMYRE: Yes, please.

7 COMMISSIONER BROWN-BLAND: All right.

8 COMMISSIONER BROWN-BLAND: So identified.

9 COURT REPORTER: Commissioner Brown-Bland.

10 COMMISSIONER BROWN-BLAND: Yes.

11 COURT REPORTER: I apologize.

12 COMMISSIONER BROWN-BLAND: You can't hear?

13 COURT REPORTER: No, ma'am.

14 COMMISSIONER BROWN-BLAND: All right. Let's  
15 see. Let's take another 15 minutes, and I'm going to see  
16 if I can't switch out court reporters. All right. Sorry  
17 for the delay, but these -- as I said, there will be  
18 something to go wrong and this is the case we're getting,  
19 y'all. Check back in at 11:15. Thank you.

20 (Proceedings recessed, to be  
21 continued at 11:15 a.m.)

22

23

24

STATE OF NORTH CAROLINA

COUNTY OF WAKE

C E R T I F I C A T E

I, Linda S. Garrett, Notary Public/Court Reporter,  
do hereby certify that the foregoing hearing before the  
North Carolina Utilities Commission in Docket No.  
W-218, Sub 526, was taken and transcribed under my  
supervision; and that the foregoing pages constitute a  
true and accurate transcript of said Hearing.

I do further certify that I am not of counsel for,  
or in the employment of either of the parties to this  
action, nor am I interested in the results of this  
action.

IN WITNESS WHEREOF, I have hereunto subscribed my  
name this 12th day of July, 2020.

A handwritten signature in cursive script, reading "Linda S. Garrett", is written over a horizontal line.

Linda S. Garrett, CCR  
Notary Public No. 19971700150