PLACE: Via WebEx Videoconference

DATE: Thursday, July 9, 2020

TIME: 1:22 p.m. - 3:45 p.m.

DOCKET NO.: W-218, Sub 526

BEFORE: Commissioner ToNola D. Brown-Bland, Presiding
Chair Charlotte A. Mitchell
Commissioner Lyons Gray
Commissioner Daniel G. Clodfelter
Commissioner Kimberly W. Duffley
Commissioner Jeffrey A. Hughes
Commissioner Floyd B. McKissick, Jr.

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 of Its Service Areas in North Carolina.

VOLUME: 5

Noteworthy
Reporting Services, LLC

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IDENTIFIED/ADMITTED

P R O C E E D I N G S

COMMISSIONER BROWN-BLAND: All right. We're back. Let's go back on the record. And, Commissioner McKissick, I believe we were about to hear your questions.

COMMISSIONER MCKISSICK: Yes, thank you, Madam Chair.

Whereupon,

WINDLEY HENRY AND CHARLES JUNIS,

having previously been duly affirmed, were examined and continued testifying as follows:

EXAMINATION BY COMMISSIONER MCKISSICK:

Q. Mr. Junis, I had a couple of questions for you, and it goes to Mr. Henry as well. And I guess they relate to your joint testimony, and in particular I guess it's the pages beginning page 4 dealing with the utility plant in service.

And I guess the first question is if I look back to page 7 here, it talks about in case W-218, Sub 274 rate case, there was discussion even back at that point in time about the way things were being handled by Aqua, in terms of in-service dates and issues of that type. Is that your understanding?

A. (Charles Junis) That's correct. So that's

about the time when Aqua had just merged a number of utilities that it had acquired, and so then it was a matter of how do you get all of the bookkeeping addressed for all the new plant, from RECO, from Heater, all of these different previously separate utilities.

Q. And let me ask you this. And I take it from questions I asked Mr. Becker yesterday, that's about the point in time that they decided to move to this Power Plant program; would that be correct?

A. Yes, sir. So I think that order was late 2018 -- or 2008. And then in 2009 and even into 2010, they implemented this transition to Power Plant.

Q. All right. Now, to your knowledge they had been using that consistently since; it will be more than a decade; would that be correct?

A. Yes, sir.

Q. All right. Now, I believe on page 6 of your testimony, beginning at line 22, you refer to an email dated May 4, 2020 where you asked, I guess, Company witness Thill about the capacities of Power Plant and the subledgers. Could you take a look at that? Are you familiar with that?

A. Yes, sir.

Q. All right. Now, let me ask you, because based upon what I'm seeing here, it was duly acknowledged that, among the capacities it had -- and I assume that they were being utilized, and maybe you can help me in answering that -- is that they defined that the completion date can be provided; is that correct?

A. Correct. So in their records, they indicate a completion date, an in-service date, and a unitization or posting date.

Q. All right. Now, did you have any follow-up inquiries with them to determine if they were using those subledger accounts for the projects that they have on an ongoing basis?

A. When you say "subledger accounts," are you referring to this concept of the completed, not classified functionality?

Q. Yes. All of that. I mean, if you look on line 23 of your testimony there, they talk about the -- they call it subasset -- excuse me, asset subledger information that's being provided.

A. So --

Q. So explain to me what you see and understand that to have been explaining so that I'm clear that -- with what you thought was occurring versus what I

believe was taking place at that time.

A. When you say taking "place during that time," are you talking about from basically the 274 rate case up until now? I just want to make sure I'm answering your question.

Q. All right. Sure, absolutely. Thank you. Let's look at it in time frames. Let's look at it beginning back at that time frame where it was first implemented, whether it was being followed and they were capturing that information. If that is the first point in time, to your knowledge, it began to be captured. Is that what happened?

A. Yes. It is my understanding that this information was captured. Some of the problems that kind of sprung from that 274 rate case were -- and these are concerns expressed in Ms. Reynolds' testimony, that some projects -- they were creating one larger project instead of multiple smaller projects, and so then that led to multiple closures or unitizations because they were closing all these kind of subprojects.

So that's one point Ms. Reynolds made in that -- that's when she was talking about not having multiple closures. Because then it looked like one

giant project was closing five times or -- so that was one problem. And then just tracking between these different, what were previously separate utilities, I think that was where the emphasis -- and it's in that on 274 and even in the, I think, 250-something rate cases, is when the Commission ordered them to track this information on a system basis. I know that was brought up yesterday.

So that level of detail is necessary to know where those assets are, and then you get into all the date information.

Q. Okay. Now, from what I had gathered going even back to 2008, there was language in the order -- the Commission's order at that time saying that, if the plant records had not been brought into compliance, any additional rate case cost due to the inaccurate records shall not be borne by the ratepayers; is that correct?

A. Yes, sir, I remember seeing that language in the order.

Q. All right. Now, has the Public Staff consistently been reviewing this data when these rate cases are coming up to see if this provision has been complied with?

A. I would say yes. I think what you're seeing

now, since, you know, the implementation or approval of the WSIC/SSIC with that uptick in capital spending, there is now additional scrutiny. When you have that capital spending doubling or possibly tripling, now we're going to emphasize more scrutiny. And the projects are bigger. They're more costly, so you're getting into more planned projects. That's what Mr. Becker was talking about. A lot of their plant at the start was contributed from a developer. Well, that had no rate base. And now that you are getting into some of those assets being 20, 30, 40 years old, they're having to replace big capital assets in a wastewater treatment plant. So now you have bigger cost projects that are spread over a longer period of time, which then makes that in-service and unitization dates that much more important.

Q. Now, let me ask you this. I guess your position -- the Public Staff's position would be that it is the in-service date; when that particular asset becomes useful, is the date the depreciation should begin?

A. Absolutely. The depreciation should begin with in-service date, and the AFEDC should stop at that date.

Q. Now, is it Aqua's contention that, rather than the in-service date, it should be the unitization date?

A. It has been their practice that depreciation begins with the unitization date instead of the in-service date.

Q. Now, let me ask you this. If you begin it on the in-service date, which I understand why you would have that conclusion and would be of that opinion, if you do not have all of the invoices in and all of the data that was going to be coming in when the unitization date approaches, how do you reconcile those differences for purposes of appreciation?

A. So that's where I think it's important to recognize this functionality within Power Plant of the completed not classified. So for the information you have and the cost you have, depreciation begins. And as those costs continue to role in, you are running depreciation against those costs. Then you reach the unitization date when you go from a general depreciation rate to you drop that larger cost into the smaller depreciation buckets.

And then they have individual depreciation rates. And so you're allocating the costs and the

accumulated depreciation up to that point into those buckets. And so that's the key here, is you're capturing that depreciation that occurs from the in-service date until the unitization date, which is currently avoided.

Q. Let me ask you this. I believe Mr. Bennink this morning was asking you about a statement that was made on page 7 of your testimony beginning up around line -- around line 7 about ideally the in-service date will occur in the same month as the unitization date.

Now, do you believe that happens frequently, or is there usually this lag time?

A. I'm going to say for these larger planned projects, depending on when that in-service date happens, that the Company has more or less urgency to unitize that. So if that in-service date occurs in the fourth quarter of a year, there is no incentive for the Company to unitize it in that period of time. They're also working on their end-of-year books, and so then come Q1, there's a much greater incentive to unitize that cost from the previous quarter. And that's where we're missing out on that year of accumulated depreciation.

Q. And I guess, on page 8 of your testimony,

beginning at line 19, you discuss the fact that many -- well, why don't you look there and explain exactly what you meant by the way the project is working at that time, in terms of unitization rate and in-service dates?

A. Right. So we're recognizing that, in March and September, they are making expeditious unitizations. That the in-service date more closely ties to the unitization date. But then when you get into Q2 and Q4, a lot of times those in-service dates are not being unitized until the following quarter. Because, number one, there is a reduction in lag in the WSIC/SSIC.

If you wait, the -- Mr. Grantmyre presented this to Mr. Becker. You saw all those WSIC/SSIC projects consistently being closed down or unitized in the latter half of the latter quarter of that period. And so then functionally -- and this is what I was talking about with -- instead of using an average period of time, but weighting that average based on the cost, when those costs occur, say, in March, then they are getting rate recovery come July 1 and you've minimized the lag.

Q. Your testimony on page 10 is an illustrative

example about an unreasonable delay. I believe there you were specifically looking at the 2017/'18 period.

A. Yes, sir. So that's where we were talking to Commissioner Duffley about last rate case. Now, looking back as part deferral request, we recognize that, you know, over 4.7 -- or nearly $4.7 million of projects could have been and should have been in service and depreciation started a year prior. And so that was just to emphasize that this is not just a this rate case problem, this occurred in the last rate case and we missed it. We're recognizing we messed up.

And then that raises the question, was this also happening before then, since that 2008 order. You're talking about possibly 10 years that, if this has consistently been their practice, the unitization is happening after the in-service dates and depreciation is being delayed, you have rate base in this rate case that potentially should be -- have an additional year of accumulated depreciation against it.

Q. There has been discussion yesterday, I believe --

COMMISSIONER BROWN-BLAND:

Commissioner McKissick, you were muted at the beginning of that. We hear you now. Go back. You

put yourself on mute, but unmute. But you were muted at the very beginning, so if you would start over for the court reporter.

Q. Sure. Yesterday I asked Mr. Becker about it, what could be done to improve, from a functional perspective, reconciling these issues of the unitization and in-service dates. And, of course, one thing I think he came back with when he was provided an opportunity for redirect testimony, I believe, was that following through with the Public Staff's recommendation relating to this 90-day window for setting forth some way, or policies, or strategies for dealing with this.

Do you have in mind, or the Public Staff have in mind, any concepts that might be helpful to the Commission in terms of what can be done to resolve or remedy this problem that appears to have been consistent over some period of time?

A. So I think the main key piece that we're taking away from this is this functionality within Power Plant that other Commission-regulated utilities are utilizing the completed not classified designation and starting depreciation based on the in-service date. So you're actually accounting for this accumulated

depreciation. I think that is something that the Company needs to implement.

It's not a matter of reviewing their practice. We have reviewed their practices and detailed them, and our testimony, and the Company's rebuttal testimony has addressed this also. I think the current practices are well described. It's a matter of how do we resolve this. And this is a tool or function that can be implemented, we know is available, and I think addresses our concerns as the Public Staff. Beyond that --

Q. Go right ahead.

A. Thank you. I was just saying beyond that, Mr. Becker made a good point about communication. You know, they have five offices, they need information from field staff. You know, as part of this, as these costs continue to trickle in, and even if you use the completed, nonclassified function, you still need to timely bring those costs in and account for them. Because I think that's just an every-once-in-a-while refresher or emphasis, because they have turnover in staff. You know, we've seen the statewide operations manager change over in my time with the Public Staff.

So just emphasis of you guys need to timely

let our accounting staff know that these projects are completed, they're getting in service, and then to be looking for those costs or inquiring. You know, they talked about vendors not getting them invoices. Vendors are very motivated to get you invoices and get paid. Sometimes on a smaller project they'll lose track and they may need reminding. That's on Aqua to make sure they're getting their costs, paying their vendors, and then accounting for this on their books.

Q. Excellent, sir. I don't have any further questions.

A. Thank you very much.

Q. Thank you.

COMMISSIONER BROWN-BLAND: All right. Any other Commissioner questions? All right. I have just one for the panel.

EXAMINATION BY COMMISSIONER BROWN-BLAND:

Q. And this has to do with the purchased water rate, it was -- there was a purchased water rate approved, was there not, by Johnston County for -- in July for 2020? And my question is, has that been reflected in the agreed upon operating expense for purchased water in the stipulation?

A. (Charles Junis) So what I'm going to say on

that is for purchased wastewater, it has been. On purchased water, it has not been. And the reason is that, for purchased wastewater, it's not a pass-through rate. That just goes into expenses. While on purchased water, it is a pass-through. And so instead of changing the rate design and revenue analysis to account for both the pass-through of the rate and also then in the expense, we said just file a pass-through application after this, and it will just be an incremental increase that can be easily captured in a pass-through.

Q. All right.

COMMISSIONER BROWN-BLAND: All right. Any questions on the Commission's questions?

MS. TOWNSEND: No questions by the AG.

COMMISSIONER BROWN-BLAND: Thank you.

MS. JOST: No questions from the Public Staff.

MR. BENNINK: No questions from the Company.

COMMISSIONER BROWN-BLAND: All right. Then I think the panel -- the panel is excused as a panel anyway.

MS. JOST: Commissioner Brown-Bland, I

think there is one housekeeping issue. I don't believe I've moved Mr. Henry and Mr. Junis' joint exhibits in. So at this time I would move that Mr. Henry and Mr. Junis' joint Exhibits 1 through 13 as corrected be entered into evidence.

COMMISSIONER BROWN-BLAND: Without objection, that's allowed, and those exhibits are received at this time into evidence.

MS. JOST: Thank you.

(Public Staff Henry and Junis Exhibits 1 through 13 and Public Staff Henry and Junis Corrected Exhibit 1 were admitted into evidence.)

COMMISSIONER BROWN-BLAND: All right. Now the panel is excused. And one part of the panel, I guess, remains. He's already under oath or properly affirmed.

Whereupon,

CHARLES JUNIS,

having previously been duly affirmed, was examined and testified as follows:

MR. GRANTMYRE:

Commissioner Brown-Bland, do you wish us to start?

COMMISSIONER BROWN-BLAND: Yes.

DIRECT EXAMINATION BY MR. GRANTMYRE:

Q. Mr. Junis, you've already identified yourself, but did you cause to be prefiled in this testimony on May 26, 2020, direct testimony consisting of 45 pages plus Appendix A, and also Junis Exhibits 1 through 17?

A. Yes, sir.

Q. And did you also file corrected testimony on June 22, 2020, correcting page 30?

A. Yes, sir.

Q. And if I were -- do you have any corrections that you want to make now on the stand?

A. I do. So if we could turn to page 19, on line 22, where it says 5.22 percent decrease for ANC sewer, that should say a 2.20 percent decrease for ANC sewer. And then on line 23 right at the very end, instead of 11.52 percent, it should say 4.90 percent. And then on page 30 -- apparently I just couldn't get that one right. On page 30, in Junis Table 4, the test year ending September '19, ANC sewer should say 5.116 instead of 5.280.

And then, additionally, on Fairway sewer, same column, that should state 6.486 instead of 6.972. And then just to clarify, the column consumption factor

has already been corrected with the June 22nd filing, but just to confirm, if you don't have that page, the ANC sewer consumption factor should say negative 2.20, and the Fairway sewer should say negative 4.90, just to wrap that up and make it consistent.

Q. Mr. Junis, do you have any other changes?

A. No, sir.

Q. And if I were to ask you these same questions again, would your answer be the same?

A. That is correct, sir.

MR. GRANTMYRE:

Commissioner Brown-Bland, I would request that his prefiled testimony consisting of 45 pages and Exhibit A [sic] be copied into the record as if given orally, and that Exhibits 1 through 17 be identified.

COMMISSIONER BROWN-BLAND: That motion will be allowed, and witness Junis' testimony consisting of 45 pages will be copied into the record as if given orally from the witness stand, including the -- is that Appendix A or Exhibit A?

MR. GRANTMYRE: It's Appendix A.

COMMISSIONER BROWN-BLAND: Including Appendix A, and the exhibits -- is that 1 through

7?

MR. GRANTMYRE: I believe it's 1 through 17.

COMMISSIONER BROWN-BLAND: 1 through 17. My handwriting error. Exhibits 1 through 17 will be identified as they were when -- as they were marked when prefiled.

(Public Staff Junis Exhibits 1 through 17 were identified as they were marked when prefiled.)

(Whereupon, the prefiled direct testimony of Charles Junis was copied into the record as if given orally from the stand.)

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. W-218, SUB 526

In the Matter of Application of 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	TESTIMONY OF CHARLES M. JUNIS PUBLIC STAFF – NORTH CAROLINA UTILITIES COMMISSION

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. W-218, SUB 526

Testimony of Charles M. Junis

On Behalf of the Public Staff

North Carolina Utilities Commission

May 26, 2020

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

A. My name is Charles M. Junis. My business address is 430 North Salisbury Street, Dobbs Building, Raleigh, North Carolina. I am an engineer with the Water, Sewer, and Telephone Division of the Public Staff – North Carolina Utilities Commission.

Q. BRIEFLY STATE YOUR EDUCATION AND EXPERIENCE.

A. My education and experience are summarized in Appendix A.

Q. WHAT IS THE NATURE OF THE COMPANY'S APPLICATION IN THIS RATE CASE?

A. Aqua North Carolina, Inc. (Aqua or Company), filed an application with the Commission on December 31, 2019, in Docket No. W-218,

Sub 526, seeking authority to increase rates for water and sewer utility service in all of its service areas in North Carolina.

Q. BRIEFLY EXPLAIN THE SCOPE OF YOUR INVESTIGATION REGARDING THIS RATE INCREASE APPLICATION.

A. My areas of investigation in this proceeding have been the review of company records; customer complaints and associated reports since Aqua's last rate case; expenses and plant in service in coordination with the Public Staff Accounting Division; the consumption adjustment mechanism (CAM); the proposed conservation pilot program; billing analysis, including the proposed conservation normalization factor; water and sewer system improvements charges; and North Carolina Department of Environmental Quality (DEQ) records.

I analyzed the Company's billing data for the test year ended September 30, 2019, and also updated data through March 31, 2020, which was provided at my request. I performed a billing analysis to determine the level of revenues produced at present and proposed rates utilizing the data updated through March 31, 2020. I normalized the billing determinants for end of period customer counts and applied a three-year average for consumption. I developed a recommended rate design to recover the revenue requirement set forth in the pre-filed testimony of Public Staff witness Windley Henry,

Accounting Manager, Water/Communications Section. The rate design includes specific usage rates for water systems that purchase and resell bulk water from a third party provider. Depending on the status of the Company's applied for CAM and the Commission's recent order in the rulemaking proceeding,[1] revisions may be necessary to design rates based on the structure and implementation of a CAM.

The following table of contents serves as a convenient reference to the areas of my investigation presented in detail with my findings and accompanying recommendations:

Junis Table 1

Q. ARE YOU FILING ANY ADDITIONAL TESTIMONY IN THIS RATE CASE?

[1] Order Adopting Commission Rule R7-40 and Commission Rule R10-27, *Petition for Rulemaking to Implement N.C. Gen. Sta. § 62-133.12A, North Carolina Session Law 2019-88 (House Bill 529),* Docket No. W-100, Sub 61 (N.C.U.C. May 12, 2020).

A. Yes. I am filing joint testimony with Public Staff witness Henry to present to the Commission the Public Staff's recommendations with regard to Aqua's requested: (1) utility plant in service, (2) deferred accounting treatment for post-test year period capital projects,[2] (3) prospective deferred accounting treatment for post-rate case capital projects,[3] and (4) retroactive regulatory asset treatment for the transmission fee paid to Johnston County in 2018.[4]

PLANT CONDITIONS AND OPERATIONS

Q. HAVE YOU INSPECTED AQUA'S WATER AND SEWER SYSTEMS?

A. No, due to the COVID-19 outbreak and the "stay at home" order issued by North Carolina Governor, Roy Cooper, the Public Staff was unable to conduct site visits prior to the filing of its testimony. If necessary, the Public Staff will conduct site visits when the public witness hearings are rescheduled. Those hearings were originally scheduled to take place in April 2020, but were postponed until further order of the Commission in response to the COVID-19 outbreak and Governor Cooper's "stay at home" order.

[2] The Company's request for deferred accounting treatment is presented on page 28, line 15, through page 39, line 16, of the direct testimony of Company witness Edward Thill, filed in Docket No, W-218, Sub 526, on December 31, 2019.

[3] Id. at 36.

[4] Id. at 39.

Since Aqua's last general rate case, the Public Staff has, on occasion, met with Aqua personnel to discuss a range of topics including, but not limited to, emerging technologies, water quality, flushing, flushing credits, outages, and projects. In addition to these meetings and presentations, the Public Staff has conducted site visits.

EXCESS CAPACITY

Q. WHAT ADJUSTMENTS HAVE YOU MADE TO OVERBUILT SEWER UTILITY PLANT IN SERVICE (UPIS)?

A. Inconsistent with the Company's last general rate case application and excess capacity adjustments on Aqua wastewater treatment plants going back to at least the stipulation of the W-218, Sub 274, rate case in early 2009, Aqua has not included any excess capacity adjustments to its overbuilt wastewater treatment plants in its application in the present proceeding.[5] The excess capacity adjustment removes from rate base a percentage of the plant and accumulated depreciation related to excess capacity in overbuilt wastewater treatment plants.

[5] Page 34, line 7, through page 35, line 18, Direct Testimony of Company witness Shannon Becker filed in Docket No. W-218, Sub 526, on December 31, 2019.

The Public Staff does not recommend excess capacity adjustments be made against all overbuilt plant. Commonly, the developer of a system bears a majority of the initial cost and risk associated with plant infrastructure to serve future projected customer growth. For example, the Cannonsgate 250,000-gpd wastewater treatment plant (WWTP) has a calculated excess capacity of 88.80% but an overbuilt-plant adjustment is not recommended because the initial construction was fully contributed to Aqua by the developer. However, there are systems for which Aqua assumed avoidable cost and risk from developers. Without an excess capacity adjustment in such circumstances, present customers would pay for an unfair and disproportionally large amount for plant to serve potential future customers.

The Commission's previous orders regarding excess capacity have conveyed an openness to consideration of other methods of calculating excess capacity. Specifically, in the W-218, Sub 497, Order the Commission "request[ed] that more evidence be presented by the parties regarding other formulas or methods for making excess capacity adjustments such that the Commission could determine by the weight of the evidence presented whether future growth projections or any other additional factors should be included

in the approved methodology."[6] While I have considered utilizing 90% of the capacity[7] as the denominator and end of period residential equivalent units (REUs) multiplied by 360 gallons per day[8] as the numerator to be more consistent with DEQ regulations, these adjustments would net the exact same excess capacity adjustment percentages.

Regarding growth projections, the REUs have been updated through March 2020 consistent with the billing data and rate base. The application of future growth projections would, as explained above, assign risk to ratepayers that the excess capacity adjustment is intended to address. Therefore, I recommend the continued utilization of the calculation methodology established by the Commission in Docket No. W-218, Sub 319, for evaluating the used and useful portion of WWTPs as determined in Docket No. W-354, Sub 128. This calculation methodology has been used in Aqua's previous three general rate cases. I have calculated the excess capacity for the Carolina Meadows, The Legacy at Jordan Lake, and Westfall (aka Booth Mountain) WWTPs as follows:

[6] Order Approving Partial Settlement Agreement and Stipulation, Granting Partial Rate Increase, and Requiring Customer Notice, Docket No. W-218, Sub 497, at 48.

[7] 15A NCAC 02T .0118(2)

[8] 15A NCAC 02T .0114(b)

Junis Table 2

A	B	C	D	E
Plant Name	Constructed Capacity (gpd)	EOP[9] REUs	Flow (EOP x 400 gpd)	Excess Capacity (1 – D/B)
Carolina Meadows	350,000	586	234,400	33.03%
The Legacy at Jordan Lake	120,000	241	96,400	19.67%
Westfall	90,000	183.5	73,400	18.44%

The Public Staff believes that the Company has failed to meet its burden of persuasion because it did not provide evidence to justify the omission of excess capacity adjustments from its Application. Specifically regarding capital expenditures for upgrades, modifications, and/or rehabilitations, the Company has not presented evidence describing any specific improvements to the overbuilt WWTPs, including the applicable costs and how each improvement is, or is not, related to the size of the existing WWTP. Based on the longstanding utilization of the excess capacity adjustment and the lack of persuasive evidence to the contrary, I recommend that the entire balance of plant be subjected to the excess capacity percentages set out in Junis Table 2 above.[10]

[9] The end of period is March 2020.

[10] Including the Carolina Meadows WWTP upgrade project, the cost of which was approximately $1.7 million.

Public Staff witness Henry has implemented the updated excess capacity percentages and plant, net of accumulated depreciation and contributions in aid of construction (CIAC), to calculate the excess capacity adjustment.

CONSERVATION PILOT PROGRAM

Q. HAS THE COMPANY PROPOSED TO IMPLEMENT A PILOT PROGRAM?

A. Yes, in its application and as detailed in the direct testimony of Aqua witness Edward Thill,[11] the Company has proposed a "Conservation Pilot Program" to implement tiered inclining block volumetric rates, including separate irrigation rates, to be charged to residential water customers in the Arbor Run, Merion, Pebble Bay, and Bayleaf-Leesville service areas (ANC Water rate entity) and The Cape service area (Fairways Water rate entity). As part of the proposed Conservation Pilot Program, the Company incorporates a projective repression of usage levels below the three-year average already subjected to the Company's proposed Conservation Normalization Factor. In addition, the Company requests a revenue reconciliation to be computed within the pilot program that would guarantee that the revenue requirement per bill be recovered in rates.

[11] Page 15, line 2, through page 28, line 14, Direct Testimony of Company witness Edward Thill filed in Docket No. W-218, Sub 526, on December 31, 2019.

Q. WHAT IS THE PUBLIC STAFF'S POSITION ON AQUA'S PROPOSED PILOT PROGRAM?

A. 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"[12] 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.

[12] Id. at 17.

Company witness Thill states the following regarding the sample of customers chosen for the pilot program:

> The use of a pilot---actually two pilots, one for the four water system customers included in the ANC Water rate design pilot and one for the Fairways Water system customers rate design pilot---will better allow us to analyze the results each pilot will have on a smaller scale before designing and applying any one or more final rate designs to the larger population of Aqua customers. The Company believes it would be imprudent to subject the entire customer base to such a dramatic structural change without first determining the effects of that change on a smaller representative sample of customers.

Id. at 16.

Thill Revised Exhibit 3 provides statistics for the systems proposed for the pilot program. From this table, it is clear that these are above average or high-usage systems that are not representative of uniform water residential customers. Company witness Thill states, "I focused our program on systems that had the greatest opportunity for both conservation and operational relief. . . ." and "Each of these systems is experiencing stress to meet peak demand and could require (potentially near-term) capital investment if conservation is not realized."[13] In response to a Public Staff data request regarding operational relief, expense savings, and avoided costs, the Company stated that it relied on subjective input from operations staff, "cost

[13] Id. at 16-17.

savings associated with the reduced volume [repression] flows through variable expenses such as power and chemicals in the consumption adjustment factor," and because "[p]rojected future capital spend is not a direct consideration in a general rate case" then "avoidance of any such potential future capital costs was similarly excluded from the rate case considerations."[14] The potential benefits are subjective based on the limited supporting documentation referred to above. The Company appears to describe operations in crises due to high volume users on one hand, yet on the other hand, fails to meet its burden to describe how the pilot may result in relief to these systems or an avoidance of capital expenditures.

The Company proposes the use of a price elasticity constant that is described in two sources referenced on page 22 of the direct testimony of Company witness Thill and is not specific to Aqua's customer base, to prospectively reduce consumption based on the proposed price increase to the volumetric rate within the inclining block rate structure. While a price elasticity of -0.3 may be expected on average, the projective repression applied to the customer consumption data is in addition to the Company's Conservation Normalization Factor. The Company's proposed factor most certainly

[14] Aqua response to Public Staff Data Request No. 120-1 in Docket No. W-218, Sub 526.

includes some degree of price elasticity impact as Aqua has increased its rates three times during the analysis period of three-year averages from October 1, 2008, to September 30, 2019, (updated to April 1, 2009, to March 31, 2020). In addition, the repression ignores the socio-economic demographics of the systems that may make them less sensitive to price signals. The Company's combination of the price elasticity, Conservation Normalization Factor, and failure to take into account socio-economic demographics is likely to result in the overestimation of the expected consumption reduction.

While limited in scope to the pilot program, the proposed revenue reconciliation is materially the same as the proposed CAM. Similar to the Company's reservation of the right to withdraw its request for a CAM, Company witness Thill states, "If Aqua is not afforded an ability to true-up its revenue periodically throughout the pilot program, the Company reserves the right to withdraw its request to implement the proposed pilot rates and, instead, requests that the consolidated rate design be applied to all customers within their applicable rate entities."[15] This creates a scenario rife with uncertainty in which any variation to the Company's proposed revenue reconciliation and/or the CAM could prompt the Company

[15] Page 28, lines 10-14, Direct Testimony of Company witness Edward Thill filed in Docket No. W-218, Sub 526, on December 31, 2019.

to withdraw the request and it is unclear when that might happen. This uncertainty could drastically impact interrelated issues such as the pilot program, CAM, rate design, and rate of return. Therefore, in order that the pilot request and its potential impact on other issues may be properly investigated and evaluated, the Company should not be permitted to alter its request indefinitely.

For the reasons stated above and in the discussion of the revenue reconciliation and CAM below, the Public Staff recommends that the Commission deny the Company's proposal for a pilot program.

CONSUMPTION ADJUSTMENT MECHANISM

Q. HAS THE COMPANY PROPOSED TO IMPLEMENT A CAM?

A. Yes. Aqua has requested authority to implement a CAM within each of the Company's five Rate Divisions, pursuant to N.C. Gen. Stat. § 62-133.12A and subject to the final rules to be defined under Docket No. W-100, Sub 61. On page 18 of its Application, Aqua asserts that the mechanism, if approved for use, is intended to provide a true-up of the average per-customer consumption levels used to calculate rates necessary to achieve an approved revenue requirement. Aqua further asserts that the mechanism provides the Company and its customers rate protections during periods of fluctuating consumption - high or low - that could otherwise result in over- or under-collection of approved revenue levels. Aqua also reserves the right to withdraw

the CAM if the rules to be adopted in Docket No. W-100, Sub 61, render the use of a CAM infeasible for the Company. The direct testimony of Company witness Becker regarding the proposed CAM generally mirrors the application language above, with the exception that Aqua supported the legislation under House Bill 529 and he makes no mention of infeasibility but rather states, "Aqua reserves the right to withdraw the Company's request to implement a CAM in this rate case docket, subject to the final terms and conditions that may be ordered."[16] This is essentially the totality of the Company's testimony and evidence in support of its CAM request in the rate case.

Q. WHAT IS THE PUBLIC STAFF'S POSITION ON AQUA'S REQUESTED CONSUMPTION ADJUSTMENT MECHANISM?

A. The Public Staff does not believe the CAM[17], as proposed by Aqua jointly with CWSNC, is in the public interest and recommends that the Commission deny the request to implement the mechanism. The Commission's Order in the rulemaking proceeding states, "the Commission is not persuaded that the Companies' proposal is a

[16] Page 33, line 7, through page 34, line 6, Direct Testimony of Company witness Shannon Becker filed in Docket No. W-218, Sub 526, on December 31, 2019.

[17] Initial Comments Regarding Rulemaking Proceeding filed on January 31, 2020, jointly by Aqua and CWSNC in response to the Commission's Order Establishing Rulemaking Proceeding and Granting Petitions to Intervene in Docket No. W-100, Sub 61.

reasonable or appropriate means of implementing the CAM Statute."[18] The revenue reconciliation in the pilot program and the CAM proposed by Aqua are nearly identical calculations and procedures. Due to these similarities, the Public Staff interprets the Commission's Order quoted above to be applicable to both the revenue reconciliation and the CAM. Said another way, the Company's revenue reconciliation and CAM requests are effectively denied by the Commission's order in the rulemaking proceeding. Until the Company either withdraws or amends its request, it would be premature for the Public Staff to evaluate the request or proffer any recommendation.

In recognition of this pending rate case and the Company's expressly reserved right to withdraw or modify the requested CAM, the Commission has allowed Aqua 30 days (to June 11, 2020) from its Order dated May 12, 2020, to amend its application with respect to the CAM. The Public Staff should be afforded time to review, investigate, and provide testimony regarding any modification to Aqua's CAM request and the related issues of the pilot program, rate design, and rate of return. Furthermore, if the Company withdraws the CAM, the Public Staff reserves the right to file supplemental

[18] Order Adopting Commission Rule R7-40 and Commission Rule R10-27, *Petition for Rulemaking to Implement N.C. Gen. Sta. § 62-133.12A, North Carolina Session Law 2019-88 (House Bill 529),* No. W-100, Sub 61, at 11 (N.C.U.C. May 12, 2020).

testimony. Any amendment to the Company's request for a CAM should be provided in a notice to customers. This could be efficiently provided at the same time as the notice of rescheduled public hearings for customer testimony. Notice to customers of the request for CAM approval is explicitly required by section (c) of the newly adopted rules.

BILLING ANALYSIS

Q. PLEASE BRIEFLY DESCRIBE THE BILLING ANALYSIS THAT YOU HAVE CONDUCTED.

A. I have reviewed and analyzed the Company billing data for the test year ended September 2019 and the prior two years of data. In addition, the billing data updated through March 2020 was provided at my request. I have performed a billing analysis to determine the level of revenues produced at present and proposed rates utilizing the data updated through March 31, 2020. The billing determinants have been normalized for end of period customer counts and a three-year average has been applied for consumption. I have developed a recommended rate design to recover the revenue requirement set forth in the pre-filed testimony of Public Staff witness Henry. The rate design includes specific usage rates for water systems that purchase and resell bulk water from a third party provider.

Q. WHAT CHANGES ARE REFLECTED IN YOUR UPDATED TEST YEAR BILLING ANALYSIS THAT ARE NOT REFLECTED IN THE ANALYSIS FILED BY THE COMPANY?

A. Updating the test year billing data to the 12-month period ending March 31, 2020, resulted in a higher level of bills than reflected in the originally filed application for the 12-month test year period ending September 30, 2019. Customer counts, as opposed to bills, were requested and provided for the months of January, February, and March of 2020. A strict implementation of end of period customers multiplied by 12 months would have significantly underrepresented the number of irrigation accounts and associated usage when comparing September 2019 to March 2020, because some customers have their irrigation service shut off during the winter. For those rate codes, I typically manually adjusted the customer count to a whole number average or the bill count to the actual number for the updated test year.

I also adjusted the consumption for the updated data using a three-year average (April 2017 through March 2020) compared to the Company's application of its Conservation Normalization Factor to the three-year average (October 2016 through September 2019). The consumption adjustment resulted in a 0.65% increase for ANC Water, 5.22% decrease for ANC Sewer, 0.66% increase for Brookwood Water, 8.13% decrease for Fairways Water, and 11.52%

decrease for Fairways Sewer to reflect the difference between the test year ending September, 30, 2019, per customer usage and the three-year average for the period ended March 31, 2020.

Q. PLEASE BRIEFLY DESCRIBE THE COMPANY'S CONTENTIONS REGARDING AVERAGE CONSUMPTION PER CUSTOMER TRENDS.

A. The Company's testimony is largely duplicative of its contentions expressed in the last rate case regarding a downward trend in consumption that prevents the Company from earning its authorized return. This is made clear through the comparison of the Evidence and Conclusions for Findings of Fact Nos. 118-119 on page 117 of the Commission's W-218, Sub 497, Order and the Direct Testimony of Company witness Edward Thill, page 7, as follows:

Evidence and Conclusions for Findings of Fact Nos. 118-119

> In his testimony, Aqua NC witness Becker asserted that, over the last several years, the average consumption per customer has varied widely due to environmental factors, conservation, and pricing impact. Witness Becker cited the "Studies of Volumetric Wastewater Rate Structures and a Consumption Adjustment Mechanism for Water Rates of Aqua North Carolina, Inc."[19] completed by the EFC at the UNC School of Government, which provides in pertinent part that, "[t]he analysis demonstrates that average water use has declined significantly among Aqua water customers, relative to test year average water use, although it has recently stabilized close to

[19] The EFC Report was filed in Docket No. W-218, Sub 363A on March 31, 2016.

5,000 gallons/month average for ANC customers." Tr. Vol. 5, at 43-44.

Witness Becker asserted that, though the trend is one of declining consumption, it should be noted that consumption can also increase significantly during periods of warm weather. He also asserted that declining consumption can be attributed to several factors including more efficient plumbing fixtures and household appliances, governmental programs encouraging greater efficiency in water use, changes in landscaping patterns, and consumer responses to these price signals. Id. at 44.

Direct Testimony of Company witness Edward Thill

Over the last several years, the average consumption per customer has varied widely due to environmental factors, conservation, and pricing. The fact is that Aqua's customer habits are changing and, overall, consumption is declining due to a number of persistent factors, including more efficient plumbing fixtures and household appliances, governmental programs encouraging greater efficiency in water use, changes in landscaping patterns, and consumer response to conservation price signals.

The aforementioned EFC Study concluded, in pertinent part, that:

> "The analysis demonstrates that average water use has declined significantly among Aqua water customers, relative to test year average water use, although has recently stabilized close to 5,000 gallons/month average for ANC customers. The drop in average consumption reduced the water revenues generated below the rate case revenue requirements for most years (despite a growth in customers)." EFC Report at p. 58.

Although the EFC Report assessed that consumption appeared to be stabilizing in 2015, Aqua's experience has been a continued overall decline in customer consumption (Thill Direct Exhibit 1).

Q. WHAT OBSERVATIONS HAVE YOU MADE REGARDING CONSUMPTION TRENDS OF AQUA CUSTOMERS?

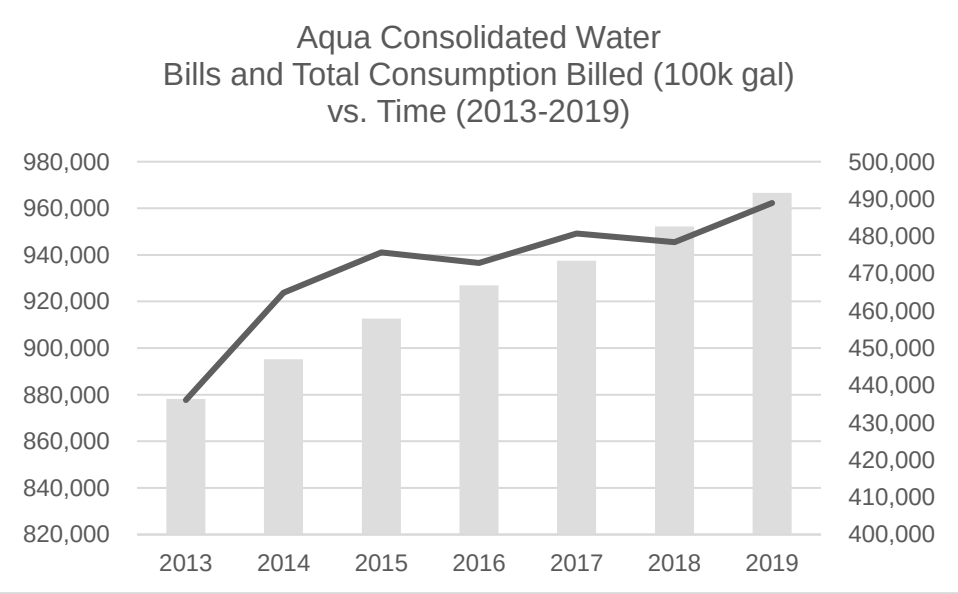
A. As noted in the EFC Study,[20] Aqua water customers' consumption has stabilized close to an average of 5,000 gallons per month. From Thill Direct Exhibit 1, I have converted the measurement units and graphically illustrated the active customer bills, billed consumption, average monthly consumption per bill, and the three-year average monthly consumption per bill for the 12-month period ending September 30 as shown in **Junis Exhibit 1**. On a consolidated basis, there has been a clear leveling out or stabilization of average monthly consumption since the dip in 2013. The average monthly consumption each year may fluctuate above or below the three-year average, however, the band of variation has narrowed significantly in recent years. On page two of Junis Exhibit 1, the graphs moving down the page illustrate this trend as the time period is limited to progressively recent data. The three-year average is a relatively accurate representation of expected consumption in the short-term. This is especially true in light of Aqua's plans to file rate cases every

[20] The Report to the Public Staff of the North Carolina Utilities Commission and Aqua North Carolina, Inc. on the Studies of Volumetric Wastewater Rate Structures and a Consumption Adjustment Mechanism for Water Rates of Aqua North Carolina, Inc. prepared by the Environmental Finance Center at the UNC School of Government was filed in Docket No. W-218, Sub 363A, on March 31, 2016.

https://starw1.ncuc.net/NCUC/ViewFile.aspx?Id=a7fd9d58-46ed-425f-9298-c4419f319a1f

15 months. In addition, as shown in Junis Figure 1 below, there has been a consistent gradual growth in customers and total consumption since 2013.[21] As a result of this growth, both revenues from base facilities charges and volumetric charges have increased from year to year. Therefore, Aqua's actual total revenues have increased from year to year and would exceed the revenue requirement approved by the Commission in the prior two rate cases. In Junis Figure 1, the left-hand axis is total bills and the right-hand axis is total consumption billed (in 100,000 gallons).

Junis Figure 1



[21] Order Granting Partial Rate Increase, Approving Rate Adjustment mechanism, and Requiring Customer Notice, *Application by Aqua North Carolina, Inc. for Authority to Adjust and Increase Rates for Water and Sewer Utility Service in All of Its Service Areas in North Carolina,* No. W-218, Sub 363 (N.C.U.C. May 2, 2014).

Using the trend summary workpapers of Company witness Edward Thill that are part of his billing analysis and rate design, I have graphically illustrated the average monthly consumption per bill for the updated test year ending March 31, 2020, and the three-year average monthly consumption per bill for the 12-month periods ending March 31 as shown in **Junis Exhibit 2**. The first two pages of the exhibit are Company witness Thill's tables for calculating the Conservation Normalization Factor, which I address in greater detail below. The following pages of the exhibit are the graphs of the average monthly consumption per bill and the three-year average monthly consumption per bill over time for each water rate entity (i.e., ANC Water, Brookwood Water, and Fairways Water) and the consolidated water entities. The observations are similar to those noted above with the exceptions that Brookwood Water has a consistent downward trend in average monthly consumption and Fairways Water average consumption spiked in the most recent 12-month period ending March 31, 2020. It would be reasonable to expect the Brookwood Water average monthly consumption to eventually flatten and stabilize and for the Fairways Water to return to equilibrium. From the updated data on a consolidated basis, there has been a clear leveling or stabilizing of average monthly consumption. On page five of Junis Exhibit 2, the third graph at the bottom of the page shows the most recent five years of average

monthly consumption per bill and the three-year average consumption. The three-year average of 5,087 gallons per monthly bill would have been within +/-4% of the subsequent years (or TY Avg in the graph), including higher in two years and lower in two years.

Q. IS THERE AN EXPLANATION FOR THE UNUSUALLY LOW CONSUMPTION IN THE 12-MONTH PERIOD ENDING MARCH 31, 2019?

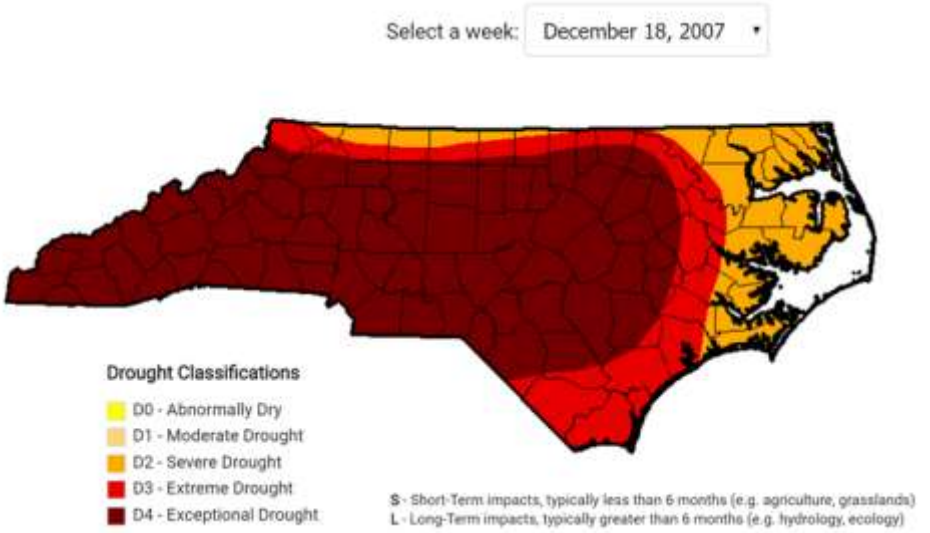
A. Yes. The simple answer is weather. More specifically, based on a review of climate data from the National Oceanic & Atmospheric Administration's station at the Raleigh-Durham International Airport, the representative area experienced above-average precipitation, both in quantity and frequency, in 2018 and early 2019. This conclusion is further supported by data from United States Drought Monitor (USDM).[22] The Commission's website provides a link to the website of the North Carolina Drought Management Advisory Council (DMAC), which collects, analyzes, and interprets information to determine the latest drought designations and maintains a website displaying the North Carolina portion of the United States Drought

[22] https://droughtmonitor.unl.edu/ (Last visited May 20, 2020).

The U.S. Drought Monitor is jointly produced by the National Drought Mitigation Center at the University of Nebraska-Lincoln, the United States Department of Agriculture, and the National Oceanic and Atmospheric Administration. Map courtesy of NDMC.

Monitor's drought severity map. I have downloaded USDM drought intensity data for North Carolina and Wake County from January 4, 2000, through May 12, 2020. I reviewed and graphed this data for North Carolina and Wake County as shown in **Junis Exhibits 3** and **4**, respectively. North Carolina experienced a historic drought beginning in 2007. Areas of the State were designated as being under severe drought (D2) starting in April 2007 and did not completely return to below severe drought levels until April 2009. The peak of the drought in December 2007 is shown in the figure below.

Junis Figure 2



At the time, 71 counties were classified as experiencing exceptional drought conditions. This is in stark contrast to more recent years. Again, the graphs in **Junis Exhibits 3** and **4** progressively narrow the focus on the updated three-average consumption data period

ending March 31, 2020. The updated test year and the prior two years (i.e., TY, TY-1, and TY-2) experienced minimal moderate drought conditions, undesignated to minimal abnormally dry conditions, and moderate drought conditions, respectively. With the exception of the first two months, TY-1 or the 12-month period ending March 31, 2019, experienced minimal dry conditions. Therefore, consumption was unusually low.

Q. PLEASE BRIEFLY DESCRIBE THE CONSERVATION NORMALIZATION FACTOR PROPOSED BY THE COMPANY.

A. The Company contends that the three-year average consumption understates consumption and that the conservation normalization factor is a correction. This is despite the Company's acknowledgement that the three-average advocated by the Public Staff accomplishes a smoothing of year-to-year consumption patterns impacted by weather.

Q. WHAT IS THE PUBLIC STAFF'S POSITION ON AQUA'S PROPOSED CONSERVATION NORMALIZATION FACTOR?

A. The Public Staff recommends the Commission deny the utilization of the Conservation Normalization Factor. As shown in **Junis Exhibits 1** and **2**, the average monthly consumption per bill has stabilized in the last five years and it would be unreasonable to further reduce average consumption based on historical data that is not

representative of current customer usage habits and conditions. The Conservation Normalization Factor in the Company's Application includes data from as far back as October 2008 and, even if updated, from April 2009. The average consumption during the years 2008 through 2012 were higher and trended downward. However, that trend is no longer occurring and, therefore, using it to calculate the Conservation Normalization Factor would underestimate average monthly consumption per customer. This is especially important when the number of customers and the total consumption continues to increase and, as concluded by the EFC, that growth in revenues outpaces the associated variable expenses.

Q. WHAT EXPENSES HAS THE COMPANY APPLIED ITS CONSUMPTION NORMALIZATION FACTOR TO?

A. Company witness Thill states, "Also consistent with prior practice, the combined factor is used to adjust the revenue requirement associated with certain variable expenses (i.e., a reduction in the volumes assumed for revenue purposes would have a matching reduction in the expense recovery required for items such as chemicals and power)."[23] On the exhibits filed as part of the Company's application, the Company makes annualization and

[23] Page 13, lines 4-8, Direct Testimony of Company witness Edward Thill filed in Docket No. W-218, Sub 526, on December 31, 2019.

consumption adjustments to purchased water, purchased sewer, sludge hauling, purchased power, fuel for power production, chemicals, materials and supplies, and some miscellaneous expenses. The consumption adjustment is not made to the sewer rate entities. The adjustments for purchased water, purchased sewer, materials and supplies, and miscellaneous expenses are inconsistent with the Commission's Order in the W-218, Sub 497, rate case.

Q. DID YOU PROVIDE DATA NEEDED FOR PUBLIC STAFF WITNESS HENRY TO CALCULATE CUSTOMER GROWTH AND CONSUMPTION FACTORS TO APPLY TO THE TEST YEAR EXPENSES?

A. Yes. Using the data in my billing analysis exhibit updated through March 31, 2020, Public Staff witness Henry was able to apply the growth and consumption factors referred to in his testimony.

Junis Table 3

Rate Entity	Test Year Ending Sep-19	PS Pro Forma Bills Ending Mar-20	Growth Factor
ANC Water	747,548	758,029	1.40%
ANC Sewer	198,960	208,076	4.58%
Brookwood Water	165,549	166,500	0.57%
Fairways Water	56,499	57,900	2.48%
Fairways Sewer	36,107	36,696	1.63%

Junis Table 4

Rate Entity	Test Year Ending Sep-19	Three-Year Average Ending Mar-20	Consumption Factor
ANC Water	4.840	4.871	0.65%
ANC Sewer	5.280	5.004	-5.22%
Brookwood Water	5.035	5.069	0.66%
Fairways Water	7.785	7.151	-8.13%
Fairways Sewer	6.972	6.169	-11.52%

In addition, I recommend that witness Henry apply the growth and consumption factors to the water and sewer short-term variable expenses, sludge hauling, purchased power, fuel for power, and chemicals, identified by the EFC. (EFC Report at 6 and 11) The growth and consumption factors should not be applied to purchased water expenses or purchased wastewater treatment. Short-term

variability of the purchased water expenses and purchased wastewater treatment are almost entirely matched by variability of the commodity revenues of those systems. This is consistent with the Commission's Order in the W-218, Sub 497, rate case. The other change I recommend is that the consumption factor be applied to the ANC Sewer and Fairways Sewer variable expenses. In this rate case, I analyzed the metered water data for approximately 62% and 95% of the pro forma bills for ANC Sewer and Fairways Sewer, respectively. Since this volumetric billing data represents a majority of the customer bases for the sewer rate entities, it is appropriate to apply the consumption factor to the ANC Sewer and Fairways Sewer variable expenses.

Q. WHAT ARE THE PRO FORMA REVENUES AT EXISTING PRESENT RATES AND AQUA'S PROPOSED RATES?

A. The pro forma revenues for the 12 months ended March 31, 2020, are as follows:

Junis Table 5

Rate Entity	Present Rates	Proposed Rates
Aqua Water	$ 36,559,502	$ 40,574,590
Aqua Sewer	$ 15,607,641	$ 17,152,079
Brookwood Water	$ 5,777,200	$ 6,803,249
Fairways Water	$ 1,138,759	$ 1,252,754
Fairways Sewer	$ 2,189,589	$ 2,271,487
Total	$ 61,221,011	$ 68,003,332

The more detailed data supporting these levels of revenues is attached as **Junis Exhibits 5, 6, 8, 10, 11, 12, 14,** and **16**.

RATE DESIGN

Q. PLEASE BRIEFLY DESCRIBE THE WATER RATE DESIGN PROPOSED BY THE COMPANY.

A. With the exception of the proposed pilot program discussed above, the Company proposes to utilize the same ratio of base facilities charges to volumetric charges as approved by the Commission in the W-218, Sub 497, rate case. The Company did not request any changes to purchased water rates.

Q. WHAT IS THE PUBLIC STAFF'S POSITION ON PURCHASED WATER RATES?

A. The Public Staff believes the purchased water rates for systems that are charged a pass-through volumetric rate should closely match the volumetric expense incurred by the utility from the provider. Simply, the goal is for the incremental changes in revenue and expense due to volume to offset each other. The base facilities charges and a reasonable amount of water loss are typically included in the cost of service to determine the uniform base facilities charges. I have utilized the purchased water expense exhibit and workpapers of Public Staff witness Lindsay Darden to determine the present purchased water rate for each provider. For providers with a uniform

volumetric rate, the purchased water rate is set equal to the provider's rate, plus the Commission's regulatory fee of 0.13%. For providers with tiered rates, the purchased water rate is calculated as an average or set to the tiered rate that an overwhelming majority of the test year usage fell into, plus the Commission's regulatory fee of 0.13%. Setting the purchased water rate based on these principles accomplishes the intended matching and allows for more transparent pass-through tariff revisions when providers change rates. In addition, the failure to update the purchased water rates in the rate case could have a negative effect on customers or the Company. For example, if Johnston County Public Utilities approved a rate increase and the incremental increase was captured in the requested expenses but not the purchased water rates set in the rate case, the expense would be included in the uniform rates cost of service. A future pass-through tariff revision request would then seek recovery of the same incremental increase in expense already captured in the uniform rate cost of service. For these reasons, the Public Staff recommends that the Commission approve the purchased water rates as detailed in **Junis Exhibits 7** and **9**.

Q. WHAT IS THE PUBLIC STAFF'S POSITION ON WATER RATE DESIGN?

A. The Public Staff agrees with the Commission that a balance should be struck between achieving revenue sufficiency and stability to

ensure quality, reliability, and long-term viability for properly operated and well-managed utilities on the one hand, and setting fair and reasonable rates that effectively promote efficiency and conservation on the other hand. Should the Company's request to implement a consumption adjustment mechanism be withdrawn or denied by the Commission, the Public Staff recommends an average bill service revenue ratio of 30:70 (base facilities charge:usage charge) for ANC Water, Brookwood Water, and Fairways Water customers. 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.

On March 20, 2019, the Commission issued an Order Establishing Generic Proceeding and Requiring Comments in Docket No. W-100, Sub 59 (W-100, Sub 59, Order). The Order made the Public Staff, CWSNC, and Aqua parties to the proceeding and required the parties to file initial comments to include "a discussion of rate design proposals that may better achieve revenue sufficiency and stability while also sending appropriate efficiency and conservation signals to

consumers." The W-100, Sub 59, Order specifically instructed the parties to address in their initial comments (1) "specific objectives that could be achieved from various types of rate structures (for example, but without limitation, irrigation rates, seasonal rates, surcharges when supply is low or in a drought situation, increasing block rates, multiple rate schedules, etc.)"; (2) "the impact on customers' monthly charges"; and (3) "the anticipated impact on efficiency and conservation." On May 22, 2019, the parties filed their initial comments and on June 19, 2019, the parties filed their reply comments. The Public Staff incorporates by reference in this testimony and requests the Commission take judicial notice of these filings, specifically the Comments of the Public Staff[24] filed on May 22, 2019, and the Reply Comments of the Pubic Staff[25] filed on June 19, 2019, which are applicable to the subject matter at hand in this proceeding.

In its 2018 North Carolina Water & Wastewater Rates Report[26] (2018 Report), the EFC stated, "[a]nother way to measure the strength of

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

[25] https://starw1.ncuc.net/NCUC/ViewFile.aspx?Id=b5079c74-66a2-4ecb-b5d5-51ad570eb051

[26] UNC School of Government Environmental Finance Center and North Carolina League of Municipalities. (2018). *2018 North Carolina Water & Wastewater Rates Report*, page 17.

the conservation pricing signal of water rates is to determine how much of a financial reward (decrease in water bill) a customer will receive by lowering their water consumption from a high volume (10,000 gallons) to an average level (5,000 gallons)."[27] The EFC further stated that some utilities "reward customers substantially in terms of bill reduction percentage for cutting back (e.g., nearly halving the bill when customers halve their consumption) whereas other utilities provide relatively little incentive (e.g., only a 30 percent reduction in bill)."[28] For ANC Water, the present uniform water rate structure provides relatively little incentive, a bill reduction of 37.6%, for customers to significantly reduce their usage by 50%. The middle 80% of EFC-surveyed North Carolina water utilities utilizing a uniform rate provide a bill reduction ranging between approximately 32% and 48% and the median bill reduction is 40%.[29]

If Uniform Water residential rates had been implemented at the 30:70 ratio in the W-218, Sub 497, rate case utilizing the billing data and average monthly usage per customer from that proceeding, then the bill reduction percentage would have increased from 37.6% to 41.2%

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https://efc.sog.unc.edu/sites/default/files/2018/NCLM_EFC_Annual_Rates_Report_2018.pdf

The document is an appendix to the Comments of the Public Staff filed on May 22, 2019, in Docket No. W-100, Sub 59.

[27] Id. at 20.

[28] Id. at 20-21.

[29] Id. at 21.

as illustrated in Junis Table 6 below. The hypothetical 30:70 rates result in higher bill amounts because the average consumption per bill was below 5,000 gallons.

Junis Table 6

ANC Water W-218, Sub 497	40:60	30:70
Base facility charge	$19.25	$14.62
Uniform usage charge, per 1,000 gallons	$ 5.83	$ 6.87
Bill amount, 10,000 gallons	$77.55	$83.32
Bill amount, 5,000 gallons	$48.40	$48.97
Bill reduction percentage	37.6%	41.2%

A lower base facilities charge reduces the cost burden on customers for access to utility service before they use any service. It allows customers to have greater control over their total bills by changing their usage through improved efficiency and conservation.

The rate design ratio of 30:70, as discussed above, has been implemented in my testimony below and in exhibits detailing the Public Staff's billing analysis and proposed rates.

Comparing the Company's proposed rates and the Public Staff's recommended rates for ANC Water, the bill reduction percentages are 38.0% and 41.7%, respectively, as set out in Junis Table 7 below.

Junis Table 7

ANC Water W-218, Sub 526	Company Proposed	PS Recommended
Base facility charge	$21.57	$14.50
Uniform usage charge, per 1,000 gallons	$ 6.80	$ 7.33
Bill amount, 10,000 gallons	$89.57	$87.80
Bill amount, 5,000 gallons	$55.57	$51.15
Bill reduction percentage	38.0%	41.7%

A price signal measure can simply be the cost of the next 1,000 gallons. In Junis Table 7 above, the next 1,000 gallons at a rate of $7.33 (30:70 ratio) is 8% more costly than the Company's proposed water usage rate, while the base facilities charge is 33% less costly.

The base facilities charge is a frequently discussed and highly controversial issue in electric, natural gas, water, and wastewater rate cases. There are advantages and disadvantages to the different base to usage ratios for the Company, rate groups, and individual customers. During my career, electric and natural gas residential base facilities charges have remained in the $10 to $15 range, while water base facilities charges have continued to increase and wastewater rates have historically been a flat rate or a very high percentage of the average residential bill.

In the 2020 North Carolina Water & Wastewater Rates Report, EFC and NCLM conducted a survey with representation from 495 of 517

rate-charging water and wastewater utilities in North Carolina.[30] The median monthly base charge amount was $17 for water utilities and $19 for wastewater utilities.[31] In addition, the median uniform volumetric rate per 1,000 gallons was $5.00 for water and $6.11 for wastewater services.[32]

If water and wastewater rates were set as the Companies would like, the rates would be almost flat to guarantee revenues. On pages 10 and 11 of the Joint Comments by Aqua and CWSNC[33], the Companies stated the following:

> From a purely financial perspective, a water utility may be best served by a flat-rate water charge, but the Companies acknowledge the danger such a message would send from a conservation perspective and emphatically do not endorse such a structure. Any shift to more fixed fees will lessen the revenue gap caused by further conservation efforts, but as long as there is any commodity charge, utilities incur some risk of under-recovery attributable to declining consumption and seasonal usage fluctuations. As such, the Companies recommended that any future rate design utilize a representative ratio of fixed (and semi-fixed) costs versus variable costs to determine the base facility charge and volumetric components.

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[30] This report is just one resource in a series on North Carolina water and wastewater rates, funded by the North Carolina Department of Environmental Quality's Division of Water Infrastructure (DWI) and compiled by the North Carolina League of Municipalities (NCLM) and the Environmental Finance Center (EFC) at the University of North Carolina at Chapel Hill.

https://efc.sog.unc.edu/sites/default/files/2020/NC%202020_Final.pdf (Last visited May 23, 2020).

[31] Id. at 4.

[32] Id. at 5.

[33] https://starw1.ncuc.net/NCUC/ViewFile.aspx?Id=f0ef1134-a320-4a8a-a02f-5cfc523797a1

Neither flat rates nor metered rates with moderate to high base facilities charges properly balance revenue sufficiency and stability with the promotion of efficiency and conservation. A strict straight fixed/variable rate design matching fixed costs to the base facilities charge disassociates the customer level cost of service burden generated by high users. Flat rates or low volumetric rates promote discretionary usage and wasteful practices. Under the current regulatory construct, the Companies profit from increasing usage between rate cases and earn an authorized return on capital investment. Increased usage is also an increase in demand that may accelerate and/or necessitate the costly expansion of existing plant capacity or filtration on formerly offline wells. Discretionary usage and wasteful usage can also cause service issues like air in the water, poor water quality, low pressure, and outages.

With metered rates, the price signals can be accentuated when ratepayers are both water and wastewater customers. Presently, the ANC Sewer and Fairways Sewer residential charges are flat rate. The ANC Sewer and Fairways Sewer commercial charges are approximately a 35:65 ratio. The present ANC Sewer volumetric commercial charges have a bill reduction percentage of 38.7%.

Q. PLEASE BRIEFLY DESCRIBE THE WASTEWATER RATE DESIGN PROPOSED BY THE COMPANY.

A. The Company proposes to utilize the same ratio of base facilities charges to volumetric charges, a majority of which are monthly flat rate, as approved by the Commission in the last rate case.

Q. WHAT IS THE PUBLIC STAFF'S POSITION ON WASTEWATER RATE DESIGN?

A. The Public Staff recommends that the service charges to ANC Sewer and Fairways Sewer customers, which are also ANC Water and Fairways Water customers, be converted from a flat rate to a volumetric rate based on their water usage. This has been considered in past Aqua rate cases dating back to the W-218, Sub 274, rate case. During Aqua's general rate case filed on August 2, 2013, in Docket No. W-218, Sub 363, the Public Staff and Aqua entered into a stipulation and settlement agreement wherein Aqua agreed to implement a study conducted by the EFC in lieu of implementing a CAM (Sub 363 Stipulation). Paragraph No. 13 of the Sub 363 Stipulation provides that:

> Aqua and the Public Staff disagree regarding whether Aqua should be allowed to implement a "consumption adjustment mechanism," as described in the prefiled direct testimony of Aqua witnesses Szczygiel (pp. 10-11) and Roberts (pp. 20-22). Aqua agrees to withdraw this testimony and in lieu of pursuing that mechanism in this case, the Company agrees with the Public Staff that Aqua shall fund a study of mechanisms that address the rate impact to customers and the revenue impact to Aqua from significant changes in customer consumption patterns, such study to be conducted by the EFC at the same time as the volumetric sewer rate

> study conducted pursuant to Paragraph 12 above. The Stipulating Parties shall work together with the EFC to determine the parameters of the study and shall jointly oversee the performance of the study. Upon completion of the study, a report setting forth the data, methodology, assumptions, and findings of the study shall be filed with the Commission by the Stipulating Parties. Aqua may defer the costs of this study on its books and request that such costs be amortized to the cost of providing utility service in the Company's next general rate case; provided, however, that the Public Staff reserves the right during the next rate case to contest the inclusion of such costs in the Company's cost of service.

In the Sub 363 Order, the Commission ordered:

> 15. That the Company shall fund a study of mechanisms that address the rate impact to customers and the revenue impact to Aqua from significant changes in customer consumption patterns, to be conducted by the EFC at the same time as the volumetric sewer rate study. Aqua and the Public Staff shall work together with the EFC to determine the parameters of the study and shall jointly oversee the performance of the study. A report setting forth the data, methodology, assumptions, and findings of the study shall be filed with the Commission within 12 months after the date of this Order.

The EFC met with Aqua personnel and the Public Staff on multiple occasions to discuss the studies and feedback. On March 31, 2016, the final report titled Studies of Volumetric Wastewater Rate Structures and a Consumption Adjustment Mechanism for Water Rates of Aqua North Carolina, Inc. prepared by the EFC (EFC Report) was filed jointly by Aqua and the Public Staff in Docket No. W-218, Sub 363A. The stated main goal of the studies was to "assess the effect on customer bills and Aqua revenues by

implementing a volumetric wastewater rate structure or implementing a consumption adjustment mechanism water rate structures, relative to the status quo."[34]

The Public Staff would prefer to uniformly move the ratio of base facilities charge to volumetric charge toward 30:70. However, the rate structure shift from flat to 30:70 would be anticipated to result in significant rate shock for customers. While the average bill remains nearly the same, low users' bills would decrease and high users' bills would increase. As a means of mitigating rate shock while still progressing toward an effective price signal, the Public Staff recommends an incremental approach to a 60:40 ratio for ANC Sewer and Fairways Sewer customers.

Q. WHAT ARE THE PUBLIC STAFF RECOMMENDED RATES?

A. The service revenue requirement reflected in Public Staff witness Henry's testimony is as follows:

[34] EFC Report at 1.

Junis Table 8

Rate Entity	Revenue Requirement
Aqua Water	$ 36,942,527
Aqua Sewer	$ 16,071,967
Brookwood Water	$ 5,817,171
Fairways Water	$ 1,046,672
Fairways Sewer	$ 2,043,995
Total	$ 61,922,332

The rates reflected in **Junis Exhibits 7, 9, 13, 15,** and **17** under Public Staff Recommended Rates will achieve these revenue levels.

LIABILITY INSURANCE RIDER

Q. PLEASE BRIEFLY DESCRIBE THE COMPANY'S REQUEST REGARDING AN INSURANCE RIDER.

A. In the direct testimony of Company witness Dean Gearhart on page 11, lines 13-22, and page 12 lines 1 and 2, Aqua requests a deferred regulatory asset/liability for insurance claims paid in excess of (asset) or less than liability as compared to the Commission approved annual claim expense in this rate case. In the alternative, Aqua requests recovery for a zero deductible insurance policy for general liability, workers' compensation, and auto insurance.

Q. WHAT IS THE PUBLIC STAFF'S POSITION ON THE LIABILITY INSURANCE RIDER?

A. The Public Staff strongly opposes these two requests by Aqua as both disincentive Aqua's safety practices. The general liability and auto liability only pay claims when Aqua is at fault. Aqua should not be guaranteed recovery from customers' fees for claims payments. The guarantee also disincentives Aqua to minimize claims.

In addition, Aqua's guaranteed recovery of all workers' compensation claims would disincentive Aqua's employee safety education and practices, including the provision of safe work places and personal protective equipment such as hard hats, safety glasses, and steel-toed boots. Again, the guarantee would be a disincentive Aqua to minimize workers' compensation claims.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

APPENDIX A

QUALIFICATIONS AND EXPERIENCE

CHARLES M. JUNIS

I graduated from North Carolina State University in 2011, earning a Bachelor of Science Degree in Civil Engineering. I have 9 years of engineering experience, and since joining the Public Staff in April 2013, have worked on utility rate case proceedings, new franchise and transfer applications, emergency operations, customer complaints, general rate cases, and other aspects of utility regulation. Prior to joining the Public Staff, I worked for Farnsworth Group, an engineering and architectural consulting firm. I am a licensed Professional Engineer in North Carolina.

Q. Mr. Junis, do you have a summary of your testimony?

A. Yes, I do.

Q. Please proceed with your summary.

A. All right.

The purpose of my individual testimony is to present to this Commission the Public Staff's investigation and recommendations regarding the following: One, excess wastewater capacity; two, the consumption adjustment mechanism, or CAM; three, the Conservation Pilot Program; four, billing analysis; five, rate design; and six, the liability insurance rider.

Item one, Excess Capacity. As part of the give and take of compromise in settlement negotiations, the stipulating parties agreed that no excess capacity adjustment be made in this rate case. The Public Staff reserves the right to evaluate and recommend excess capacity adjustments as it deems appropriate in future rate cases.

Two, Consumption Adjustment Mechanism. As part of the rebuttal testimony of Company witness Thill, the Company has withdrawn its request to implement the CAM.

Three, Conservation Pilot Program. The Company proposes a Conservation Pilot Program to implement tiered inclining block volumetric rates, including separate irrigation rates to be charged to residential customers in the Arbor Run, Merion, Pebble Bay, and Bayleaf-Leesville service areas, part of ANC Water rate entity, and The Cape service area, part of Fairways Water rate entity.

As part of the proposed Conservation Pilot Program, the Company incorporates a prospective repression of usage levels below the three-year average already to be subjected to the Company's proposed Conservation Normalization Factor, which would have reduced the three-year average usage based on historical data dating back over 10 years that is not representative of current usage habits and conditions.

Similar to its withdrawn CAM, the Company requests a revenue reconciliation to be computed within the Conservation Pilot Program that would fully guarantee the Company recovers the per-bill revenue requirement in rates without consideration for customer growth, which is variable as is usage.

The Commission's Order in the rulemaking proceeding, Docket No. W-100, Sub 61, states, quote,

The Commission is not persuaded that the Companies' proposal is a reasonable or appropriate means of implementing the CAM Statute, close quote.

The revenue reconciliations in the Conservation Pilot Program and the CAM proposed by Aqua are nearly identical calculations and procedures. Due to these similarities, the Public Staff interprets the Commission's order quoted above to be applicable to the revenue reconciliations of both the Conservation Pilot Program and the CAM. Said another way, the Company's revenue reconciliations of the pilot and CAM requests are effectively denied by the Commission's order in the rulemaking proceeding.

Four, Billing Analysis. I have reviewed and analyzed the Company's billing data for the test year ended September 2019 and the prior two years of data. In addition, the billing data updated through March 2020 was provided at my request. I have performed a billing analysis to determine the level of revenues produced at present and proposed rates utilizing the data updated through March 31, 2020. The billing determinants have been normalized for end-of-period customer counts, which has been accepted by the Company in the rebuttal testimony of witness

Gearhart, and a three-year average has been applied for consumption. As part of the Stipulation, the Company has agreed to withdraw its Conservation Normalization Factor.

Five, Rate Design. Using the billing determinants from my billing analysis, I have developed a recommended rate design to recover the revenue requirement set forth in the prefiled testimony of Public Staff witness Henry. The rate design includes specific usage rates for water systems that purchase and resell bulk water from a third-party provider.

The base facilities charge is a frequently discussed and highly controversial issue in electric, natural gas, water, and wastewater rate cases. There are advantages and disadvantages to the different base to usage ratios for the Company, rate groups, and individual customers. During my career, electric and natural gas residential base facility charges have remained in the $10 to $15 range, while water base facility charges have continued to increase, and the Commission-regulated wastewater rates have historically been a flat rate or a very high percentage of the average residential bill.

The Public Staff recommends a service revenue

ratio of 30/70 base facilities charge versus the usage charge for ANC Water, Brookwood Water, and Fairways Water customers. The incremental shift to a higher volumetric charge sends a price signal that properly promotes efficiency and conservation.

As discussed in greater detail in my testimony, 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 have 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.

The Public Staff recommends that the service charges to ANC Sewer and Fairways Sewer customers, which are also ANC Water and Fairways Water customers, be converted from a flat rate to a volumetric rate based on their water usage. This has been considered in the past Aqua rate cases dating back to the W-218, Sub 274 rate case.

The Public Staff would prefer to uniformly move the ratio of base facilities charge to volumetric charge toward a 30/70 ratio. However, the rate

structure shift from flat to 30/70 ratio would likely result in significant rate shocks for some high-usage customers. While the average bill remains nearly the same, low users' bills would decrease and high users' bills would increase. As a means of mitigating rate shock while still progressing toward an effective price signal, the Public Staff recommends an incremental approach to a 60/40 ratio for ANC Sewer and Fairways Sewer customers.

Through rebuttal discovery, Carolina Meadows Senior Care Facility was found to receive water service from Chatham County through 264 5/8-inch meters, 6 2-inch meters, and 4 3-inch meters. After excluding dedicated irrigation meters, equivalent to 200 -- I'm sorry, 372 residential equivalent units, or REUs. Since the Sub 363 rate case, this customer was designed to be billed based on a 6-inch wastewater meter or 50 REUs, which significantly underrepresented the design flow demand of the customer and resulted in a low base facility charge.

In consideration of the magnitude and suddenness of the rate change, the stipulating parties have agreed that the Carolina Meadows Senior Care will be billed a base facility charge for 50 percent, or 186

REUs, until the next general rate case. The Public Staff would then recommend full implementation of a base facility charge of 372 REUs.

At the request of this Commission, I have updated my billing analysis and rate design exhibits to recover the partial settlement revenue requirement. The Public Staff's recommended rates utilize a 30/70 ratio for water and 60/40 for sewer.

Six, the Insurance -- I'm sorry, Liability Insurance Rider. As part of the settlement, the stipulating parties agreed to a level of insurance expense that will be subject to a 50 percent true-up based on actual claims paid as a regulatory asset or liability, without a return or carrying costs, to be recovered in the next general rate case. The Public Staff has no intention of such a true-up mechanism continuing in future rate cases.

This completes my summary.

MR. GRANTMYRE: The witness is available for cross examination.

COMMISSIONER BROWN-BLAND: Thank you, Mr. Grantmyre.

Is there cross-examination for this witness, beginning with the AG?

MS. TOWNSEND: The AG has no questions. Thank you.

COMMISSIONER BROWN-BLAND: All right. Thank you. From the Company?

CROSS EXAMINATION BY MR. BENNINK:

Q. Mr. Junis, one question. You say, toward the conclusion of your summary on page 4, that you have -- at the Commission's request, you have updated your billing analysis and rate design exhibits. I know they were filed. It's my understanding that Mr. Franceski with Aqua corporate services contacted you about some questions he had about that updated filing.

Have you had a chance to look at that, and do you know if there are any changes to be made, or what you filed is what you think is what should be filed?

A. Mr. Franceski did send me some emails. I believe the date of that was -- let's see. That was Tuesday evening. Mr. Franceski called me when I was on my way home after the -- you know, going home getting ready for this hearing starting. He has raised some concerns about my wastewater design, which the concerns that he pointed out had been present since I filed on May 26th.

So for this 11th-hour issue to be pointed

out, number one, there will always be winners and losers in rate design. If you shift where revenues are coming from, somebody is going to pay less, and somebody's going to pay more. And one of the issues that Mr. Franceski raised was the base facility charge for City of Charlotte pass-through wastewater customers. It's approximately 1,000 customers. They were getting the volumetric base charge. And those volumetric base charges in the current rate design are actually a 35/65 ratio. So I want to really emphasize this. That's a 35 percent base, 65 percent volume. And that was almost entirely applied to commercial customers, but these pass-through customers also fell in that group.

We are talking about pulling in thousands of flat-rate wastewater customers into the volumetric. And we suggested, because now the majority were going from flat rate to volumetric, that we would move that ratio to 60/40. So that means, for these customers that were previously under the volumetric rates, their base charges are going to go up, and this set of customers are -- will feel those effects. They're going from, in my rate design, about a $26 base charge to about a $45 base charge. That's a significant bump.

But we need to recognize that the average flat-rate customer is paying over $75 a month.

So if you take that $45 plus let's assume 5,000 gallons of usage at $6, we've just gotten in the neighborhood of $75, which is the existing flat rate. And so prior to that, at a $26 base charge, those customers were getting a discount in comparison to the majority of residential customers. So while I recognize the concern there from Mr. Franceski, I believe, at this point, that this rate design should remain.

Alternatively, if we go to our kind of ideal of the 30/70, then that would solve this problem. Because now you would go to 30/70 from a 35/65. Does that -- I would have to look back at his other emails to talk in more detail about -- I think he had one other concern related to the Fairways flat rate.

Q. I think that's right. And the purpose of the question was just to see if you thought there were going to be any changes made to the billing analysis.

A. At this time, with it being so late in the process, I didn't want to go shifting what the Commission was looking at and what everybody was looking at. Is there some validity to some of these

concerns? Certainly. But like I said, there will always be winner and losers, and we're trying to weigh that. And I think my current rate design, as unchanged, is a fair rate design.

Q. Does that go for Fairways as well?

A. Just give me one second to make sure I understand what that was again. So for a small subset of customers that will remain flat rate, Mr. Franceski felt that they were not receiving a high enough rate. Could it go up a little? I would be okay with it. I'm okay with where we're at also. I don't think it's significant enough to blow up anything.

MR. BENNINK: That's all I have, Commissioner.

COMMISSIONER BROWN-BLAND: All right. Let's see.

MR. GRANTMYRE: Public Staff does not have any redirect.

COMMISSIONER BROWN-BLAND: All right. Thank you, Mr. Grantmyre.

Questions from commissioners? Commissioner McKissick?

EXAMINATION BY COMMISSIONER MCKISSICK:

Q. Thank you. Mr. Junis, I have a few questions

about the conservation pilot program. Now, in your testimony, you recommended the Commission deny the pilot program as being highlighted not representative, limited. Now, Aqua responded, and they said the pilot covers the entire Fairways Water system and 10 percent of ANC Water customers.

Do you still think that the pilot is not representative?

A. Yes. It's my opinion that, because you have targeted these high-irrigation customers, or high-consumption customers, that then you cannot extrapolate those findings to the rest of the customer base. Mr. Grantmyre made a very good point in his cross of Mr. Thill that, when you look at that small subset, their average usage is over 7,000 gallons while everybody else is closer to 4,000 gallons. So how can you implement a pilot and then extrapolate that information from these customers that have abnormally high usage and say, well, these low-consumption customers are also going to see some form of decrease or extrapolate those findings?

In my opinion, when you do a pilot, it should be a representative sample. No matter what your goal is to show, it should be representative so then you can

extrapolate those findings to the rest of the customer base. And that's where, now that the Company has explained or changed their proposal to now define a period of time that they want to run this pilot, I don't think it's -- it's another reason to deny it. Because you're now making a decision that not only impacts this rate case, but possibly one or two more rate cases to keep that pilot around long enough for them to think they can get enough data. And that is a problem to me, because, like Mr. Grantmyre said, we're trying to shift this. We are trying to emphasize conservation.

And so -- and providing a balance. Because I also want to recognize that with the revenue reconciliation, those customers in ANC Water, their volumetric revenues make up over $4 million. And while the Company would argue that that is variable under my rate design, that would now be fully guaranteed under the Company's recommendation. So I take it personally when there's critiques about shifting revenues to variable or increasing their risk when they are now -- their recommendation moves $4,000 into the guaranteed pile of money for their revenues.

That's a problem, because also you need to

recognize, even though I'm saying that 70 percent of revenues is based on consumption, there is a baseline nondiscretionary usage or volume within that 70 percent. So it's not as if all of a sudden 70 percent of their revenues could just dry up and disappear. There will always be a significant portion of that that is not discretionary. So I think that that is really important to recognize. I'm not just moving huge piles of money to where they can't possibly earn on it, but if you see a 1 percent shift in consumption on that 70 percent, yes, it's a little bit bigger than if I have it as a 60 percent volumetric charge. I just wanted to clear that up a little bit.

Q. And I guess that kind of leads into another question I had, and that was dealing with the revenue reconciliation.

I take it, even with the revenue reconciliation mechanism that they have suggested in the way it would be proposed to function and operate, you would still have objections to the way it's structured?

And I guess the follow-up would be -- first answer that one. But are there any ways that you could see that a pilot could be created working with Aqua

that would address your concerns without something affecting everybody in the entire rate base, regardless of what -- what division they're within, that that would be an appropriate test or pilot? And if so, you know, how would you do that revenue reconciliation? What type of duration would you look at? Because yes, they indicated earlier today -- I think was a question they asked -- that it might go out three years before they would know the potential ramifications of a pilot as they have proposed be constituted.

So what can you offer or suggest or recommend that would address your concerns that would allow for an appropriately crafted pilot that would let us try to see what could happen to decrease consumption appropriately and also minimize what the actual capital outlays were consistent with rates? So help me with that. I know it's a tough question, or at least a broad question, but maybe you could help me get my arms around it.

A. Absolutely. That is a great question. There's a lot to unpack there. And I might work kind of backwards from how you answered it -- answering the latter before the beginning.

So number one, I think a sample needs to be

representative. And not only should it be usage representative, but geographically and socioeconomically representative. Because this was brought up earlier, that the Bayleaf master system, those are -- those people are doing okay. Income-wise, home-wise, the yard. They have different concerns than other Aqua customers. And so Mr. Thill brought up, well, they're getting -- for example, somebody's getting $1,000 water bill. If that jumps up to $2,000, they're not sure how that person is going to react, because that may not be that much money for that person. So I thought that is a key piece that was not considered when implementing a price elasticity consumption. You know, that point -- or the negative 0.03 comes from, number one, a national study based on urban water. So are those customers, their socioeconomic status, representative of the pilot -- proposed pilot systems?

And same thing with North Carolina. I don't want to be critical of the City, they do amazing work, but that was representative of the entire state, and yet you're applying it to this very specific group within the pilot. So I don't think that's necessarily appropriate. And also, that price elasticity was

applied on top of the conservation normalization factor that is based on data from over 10 years that includes three or four Aqua rate cases that increased rates. So there is already a price sensitivity aspect in that reduction.

So they were reducing consumption twice from the three-year average that I was afraid would overestimate the reduction and, as a byproduct, increase the usage rate, which then, if you don't actually see that reduction in consumption and it's closer to the three-year average that we recommend, the Company will overearn. And I'm not even factoring in yet that we know they have traditionally 2 percent growth. That we have to recognize, if consumption is variable, and we're trying our best to predict what that consumption level will be, the same can be said about number of customers. That is revenue that they are getting and should be part of the equation of any revenue reconciliation. It should be part of any consideration in setting rates. That's why we do end of period.

And so if you start being predictive of consumption past what we know in the rate case, do you then also have to be predictive of the customer growth.

Because otherwise, if you get 2 percent growth, number one, you know those customers are going to be included in the calculation of an average. Because you calculate an average by taking two numbers, the consumption divided by the number of customers. How would they track if a customer was included in the rate case and then you're not going to include them in the pilot if they join that system between now and the next rate case? No. If they're within the Bayleaf master system, you're going to charge them the pilot rate. So then they should be included in the average.

But also, if you include them in the average, let's say consumption goes down 10 gallons, and let's say 10 gallons is half a percent. Well, half a percent, but then I get 2 percent growth, number one, you're getting, in that 2 percent growth, additional base charges -- base facility charges; you're getting additional usage charges that then -- and this is what I've shown in my testimony -- the total number of customers and the total amount of consumption and therefore revenues, has continually increased.

So the argument that they are undercollecting due to the consumption levels is not accurate. Because as we've also seen, the EFC has quantified it, only

17 percent of the wastewater expenses are variable in the short term. Only 11 percent of the water expenses are variable, yet we're talking about almost 100 percent of a revenue, or let's say we were losing half a percent of consumption, that is much different. Because you're pulling in, like I said, that base facility charge and the consumption charge. All right.

There is a lot still that I didn't address in your question. So pulling back here, sample needs to be representative both geographically, socioeconomically, and usage-wise. So then you can actually extrapolate those findings to the rest of the customer base. That's why I would rather see full implementation, use it and use it with a CAM that is protective of both the Company and customers. You have to share risk.

The current revenue reconciliation doesn't share risk, it actually eliminates risk for the Company. Because customers that were a 40/60 base volume is now -- they are seeking 100 percent guarantee of those revenues on a per-customer basis, so they actually have an opportunity to overearn. And the way I would solve that is with a two-prong test.

Consistent with the Public Staff's

recommendation of using total revenues or total consumption, your first test could be, has the average consumption decreased? So then we're still adhering to the statute based on average consumption.

The second part would be, has the total usage -- and you could either use consumption or the revenues tied to that -- has that decreased? And if both of those things have happened, then they are underearning. Then they are not getting the revenues that you anticipated in rate design. That's when you would implement a surcharge.

But if you have a decrease in consumption, average consumption, but revenues still exceed the revenue requirement in the rate case, we don't do anything. We recognize, yes, consumption's gone down a little bit, but customer growth has offset that, and they are still earning their revenue requirement. And likewise, if the average consumption has gone up but you have an increase in revenues, then there should be a credit.

And then the last scenario is increase in consumption but a decrease in revenues. You call it a wash. Because the concern about average consumption has now been realized.

I hope that makes sense. I'm trying to think if there's another piece. Was there any part of your question I didn't answer?

Q. No, I think you did. Because you see this working with the CAM, so you don't envision a revenue reconciliation mechanism as they propose in the model?

A. Right. Or it is closer to a CAM than we can -- we, as the consumer advocate, believes is protective of both the customer and the Company. Because as it stands, 100 percent fully guaranteed is only protective of the Company. You've actually reduced the risk from the current rate design.

Q. And I assume based upon the explanation you just provided that, to track growth, you'd have to disaggregate it and keep some type of separate system for identifying new customers, then join in at the effective date of a potential pilot that would be implemented; is that correct?

A. Right. And that becomes a tracking nightmare. What if a customer that was part of the pilot moves out, and then that home is not filled and you lose months of data. Well, that becomes cumbersome. What if somebody then moves into a different house; do you use them as a replacement? Do

you not include them because they have started after the initial implementation of this pilot?

You have data validity issues when you start trying to limit or not include growth. I think you have to include growth as part of this equation.

Q. Okay. One or two last questions. And I think here before you provided such a very exhaustive explanation. Thank you for that explanation, because it helps me to understand what the framework is that you're working within in terms of the way this might actually play out.

But do you have any concerns regarding the method, in terms of the -- using the average bill per customer that the Company's proposed to reconcile the revenue within the pilot? I think you've addressed that, but if you could perhaps be a little bit more succinct.

A. Yes. I apologize. I get excited about this stuff. Given the average consumption, that if you ignore growth, you ignore the total. And so if you ignore the total, then what is really the goal of the Company? Is it to earn their determined revenue requirement, or is it to earn based on a per-customer revenue? We have never set -- there has never been a

Commission order, in my experience on water and wastewater, a revenue requirement per customer. There is a total revenue requirement.

And we recognize that there will be changes in customers. Customers will come and go. There will be changes in consumption. We try our best to determine that. That's why we use the three-year average. We hope that smooths out. And I think we've shown that there is stabilization there. And I'm going on a little beyond what your question was, and I need to stick to the concise.

So my main point there is, if you only use the average, you're ignoring the total, you're ignoring growth, and that is not fair to customers. Because, essentially, you could still have higher revenues, higher total consumption than what was in the rate case, and the Company would claim that they're not getting enough. I think that's a problem.

Q. Got it. And final question. You know, you expressed concerns about the uncertainty of the interrelatedness of the issues of rate design, CAM, and the pilot program, of course the rate of return. But now that Aqua's formally withdrawn the CAM proposals, proposal I should say, do you still have the same

concerns and objections to the pilot? I think you answered that pretty profoundly, to say the least, but with considering all of that in its totality, I mean, are your thoughts any different?

A. I think the pilot, number one, as it's currently proposed, like I said, it guarantees a portion of revenue that wasn't previously. We have, you know -- so that's a problem. I think that the pilot delays implementation of a more progressive rate design that promotes conservation that strikes this balance between customer interest and the Company.

I mean, I recognize, theoretically, that if you could reduce consumption, and especially peak consumption, there are benefits to the Company and customers. The problem being, when we asked what analysis did you do; what cost do you think can truly be avoided if you can decrease consumption by 2 percent, or whatever the anticipated, the Company didn't give us anything.

I don't feel comfortable with implementing this pilot without a better idea of what do you really expect. If customers decrease their consumption by 5 percent, can we avoid X number of filters on the Bayleaf master system? Have you truly assessed what

are your capabilities in providing quality service, and what impact will it have, what affect will there be if customers actually do concert?

And I think that is part of it. You know, the NBER study talks about both financial and nonfinancial policy implementation. I think it was Commissioner Hughes that might have brought up the idea of information, educating customers. That's important. These Bayleaf customers, these customers where irrigation causes service issues, they need to understand that, if you-all could alternate irrigation dates, if you could cut back irrigation some, this will decrease your cost of service, it will make your quality of service better, and it benefits both customers and the Company.

And that's where not having the customer hearings due to COVID is a big piece that I feel like is missing out of this equation. Because -- and Mr. Grantmyre can attest to it, the Company can attest to it, we value that. We go early, we stay late, we make sure everybody gets set up, we make sure they get to where they need to be, and we answer questions. And we try to help educate these customers whenever we have contact with them of what is important and how can they

help themselves. If that be with a customer service problem, in talking to the Company, can we get involved or can consumer services get involved and represent their interest, or can we just give them a solution on the spot. I think that's really important. I've, again, gone a little long. This is my favorite part.

Q. Well, you've certainly provided some excellent responses to my questions, so I appreciate you sharing your perspective and for -- it might not have been quite as succinct, but I appreciate the longer, more exhaustive explanations. They certainly are beneficial to me as a new Commission.

A. Well, thank you for your good questions. I appreciate that.

MS. SANFORD: Commissioner Brown-Bland?

COMMISSIONER BROWN-BLAND: Ms. Sanford?

MS. SANFORD: Yes. I am sorry for the interruption, but the entire office here in Cary just went dark. We have lost all power, and I guess I'm working on a battery here. But I just thought this was a reportable event, so I'm telling you what I know, because it has just happened. And I'm sitting here thinking a lot of things I won't say, but Mr. Thill is in there on a computer that's

just gone down. So whatever else is to be done can carry on here, but I just want you to know we're working on an issue.

COMMISSIONER BROWN-BLAND: Can Mr. Thill continue to hear? Can he dial in? Can you use the dial-in number?

MS. SANFORD: We don't know. We're working on it. It has just gone out, I mean, like, two minutes -- not even two minutes before I called you. So we're working on it, and we will get back to you right away. Let us investigate.

COMMISSIONER BROWN-BLAND: All right. I'm going to continue for now, but I do want to know if Mr. Thill can't hear.

MS. SANFORD: Yeah. I'll find that out right now. Be right back with you.

COMMISSIONER BROWN-BLAND: Okay.

EXAMINATION BY COMMISSIONER BROWN-BLAND:

Q. Mr. Junis, before I call on another Commissioner, I just had a follow-up to what Commissioner McKissick was asking.

And that is, would the Public Staff be okay with reconciliation if there were -- if that was capped on the total revenue requirement in the pilot area?

A. On the total revenue requirement? So if that revenue -- or that revenue reconciliation was based on the total, being that if they collect additional, there would be a credit, and if you were below that total revenue requirement, there would be a surcharge. That's where we have been angling toward, and that's part of our recommended position in the CAM. I mean, that's the concept.

And that's where hopefully addressing some of the Commission's language -- you know, the Commission talked about all these scenarios and how, you know, just purely on a total, maybe there are some flaws, that's why I pointed out the two-prong approach. I think you maintain the integrity of the statute by considering average consumption, but you also maintain a protection for both sides by using that total-usage revenue requirement. We view the CAM and the revenue reconciliation in the pilot as being essentially one and the same. Did that answer your question?

Q. I think so. So if that -- in other words, that -- the revenues wouldn't exceed or -- that the revenue would just be the cap -- the total revenue requirement would be the cap regardless; does that work for you?

A. The revenue requirement would be the threshold or the target. I agree with that.

COMMISSIONER BROWN-BLAND: Okay. Before we go on, are we still good with just Mr. Bennink? Mr. Bennink, are you comfortable representing Aqua at this point? I think Ms. Sanford --

MR. BENNINK: That's fine. I would like to have Mr. Thill able to at least hear.

MS. SANFORD: Yeah. I'm back on. The power is out, the generator is out, which makes no sense because the generator is natural gas.

COMMISSIONER BROWN-BLAND: Can --

MS. SANFORD: I can put Mr. Thill on here.

COMMISSIONER CLODFELTER: Insufficient pipeline capacity for the gas generator.

COMMISSIONER BROWN-BLAND: Ms. Sanford, could go ahead and arrange for Mr. Thill to be able to hear at least through these Commission questions? So we might have to make another change after in a few minutes.

MS. SANFORD: Yes. I will put him at my computer, and I'm going to go elsewhere and try to dial in. But for right now, I will put him at my

computer, and then we will see what's next. So he's going to sit down here, but he will be under my name.

COMMISSIONER BROWN-BLAND: Will you let me know when he's there, somebody?

MS. SANFORD: He's just listening to the record himself.

MR. THILL: I'm here, I can hear, so.

COMMISSIONER BROWN-BLAND: Very good. Thank you. All right. Commissioner Duffley?

MR. BENNINK: Commissioner Brown-Bland, can I ask Mr. Thill one question, and that is, did he hear -- did he hear Mr. Junis' last response to your question?

MR. THILL: I caught parts of it.

MR. BENNINK: Do you think you understand what the question was and the answer was?

MR. THILL: Yeah, I think we can continue.

COMMISSIONER BROWN-BLAND: All right. Let's continue. Commissioner Duffley?

EXAMINATION BY COMMISSIONER DUFFLEY:

Q. Okay. So I have a few staff questions.

Seeing how passionately you feel about this issue, you may have a hard time answering these questions, but I still want to ask them.

So if -- let's assume the Commission approves Aqua's proposed pilot program. How long would you say the pilot needs to remain in place in order to gather the necessary data regarding the impact on customer conservation and other impacts of the program?

A. I don't know if you can necessarily predetermine the amount of time. I think there are a number of factors that impact consumption. Number one being the weather and the climate. And this is something I tried to draw attention to in my testimony, that we are in a period of higher-than-normal frequency of rain and volume of rain. That can drastically impact an irrigator's habits. We are also in a period of time where a whole bunch of people are at home, and that can change consumption.

And so if -- if the conditions are not what you would expect, you need a long enough period of time to kind of smooth that out to get a representative or fair evaluation. Because otherwise, like we talked about for the big family, if the big family also doesn't have kids at school five days a week, and, you

know, all of a sudden they're using stuff inside, they maybe decided to get a pool because you can't go to the pool because you don't feel safe. I mean, there's all these potential factors that could change your consumption, and you're not limiting it to one controlled variable like you would want in an experiment.

We're not just controlling rate design, we now have all these factors. And I don't -- I'm not saying that doesn't happen all the time, but we are in unusual circumstances with the combination of these of wet periods, the amount of rain, and then the COVID conditions with more people at home.

Q. Okay. Thank you. And the next question, I think that you and Commissioner McKissick discussed this some, but I'm going to ask the question just to make sure if there's anything that you wanted to add to what you've already testified to.

So the Commission recognizes that the Public Staff rejects the pilot program as proposed. But how would the Public Staff propose to initiate this type of program? And like I said, I think you answered it somewhat, but is there anything you want to add?

A. I would -- I would add that we really have

not gotten a chance to explain the pilot to customers. We really haven't gotten to talk about what they might see. And I don't know if, because you have these other issues going on, that we're just not receiving the feedback in this rate case like we normally do.

I would think, as a Bayleaf customer -- and we have gotten feedback from one, and we very much respect Becky Daniels' opinion. She's concerned about conservation. She's concerned about quality of service. She did not know the potential cost for her family. Is she a higher than normal consumer, and is she going to see her bill double? And how would she feel about that, or how would other customers feel about that?

So I think a good approach would be, in recognizing the flaws of this proposal, that this rate case, we just shift. And this is a small shift to variable. We see a shift to metered wastewater that has been considered for years and years, hasn't been implemented. The Company actually -- I'll be pretty frank. Mr. Franceski was like, "Why do I keep having to give you this information?" And I said, "Well, this time I'm going to use it. This time I have the control, and we are implementing it." And that's why I

want to see it implemented.

And then the same thing in terms of data to implement inclining block rates. If you don't have the block data broken down, and the Company has gone through extensive work to try to do that on a customer-by-customer, bill-by-bill method for this pilot, well, why can't we get that data for every customer? Why can't we do that to then evaluate truly what do we know about customers now as opposed to picking this group? This group that is not representative.

So just in conclusion, I would say, if we're going to implement either a more expansive inclining block rate or rate design that promotes conservation, I think it should happen next rate case. We anticipate next rate case will happen fairly soon. I've seen as early a filing date in some of the documentation we've received from the Company as January of 2021.

So this is going to come back up, and I would rather it be a better, more thoughtful, holistic approach. And we've hit on this, that we think it would be better if it was implemented across the board. And we think it would be better with the CAM, a CAM that considers the full picture. So I'm saying next

rate case, with more of information and with consideration of the full picture.

Q. Okay. And then the last question is, let's go back to assume that we approve it in this rate case.

What type of report would the Public Staff want to see filed to convey the results of the pilot program and to determine whether the program should continue, continue on a larger scale, be modified, or be concluded?

A. Because I will say this. It is easier to deal with information like this on a more frequent basis, because then you're looking at pieces and parts, and you can compare those smaller pieces and parts more easily. So I would say, at the very least, it should probably be like a quarterly report. Because you also have seasonality, so if you can kind of break up that seasonality when you're reviewing, and then you can compare those blocks separately, I think that would be helpful.

You make a very good point, and a concern of ours is what is the measure, what is the criteria that this is successful or this is doing what you think; and then how do you implement it on the rest of the customer base? And that's where, if you don't have a

representative sample, I think that becomes much harder. Because you're -- a customer base that you assumed would have high discretionary usage and could lower their usage, you're then going to try to extrapolate that against a majority of customers that don't have that discretionary usage, and so how do you predict? So --

Q. What if -- go -- so go ahead.

A. I think you were probably -- maybe we're going in the same direction. What --

Q. So what type of components do you feel like should be in the report?

A. I think it certainly needs to be by system. I think you definitely need the number of customers that are participating, the number of full months. You need days of service. Because if customers are moving in and out, you don't want to use 12 days of service in your calculation necessarily, because that may not be representative of the average month. I want to use full-month data.

And I think we need more information about these customer groups. How do you measure socioeconomic status so that we can, perhaps, better apply these findings to the rest of the customer base?

You know, how much is their average bill? And I think you definitely need the weather data. Because if we are truly assuming this is irrigation, you need that same month's rainfall data for the counties. I think you've got to go by county that these customers are in.

I mean, this gets really complicated, and that's why we think a more across-the-board approach. And recognize there will be hiccups, but if you have a properly designed and implemented CAM, there's protections for both sides.

Q. And then last question. I mean, obviously, if we approved it, would you request, or do you think it would be helpful for the Commission, or do you think it would be helpful to report on it on an interim basis? Have the Public Staff reporting on the -- working with the Company and then reporting to the Commission, or just waiting until -- until the end?

A. I think it's easier to give the Public Staff an opportunity to respond. Have the Company file their piece, let the -- let the Public Staff have some period of time to look into that data. Maybe if we need to send a data request or work collaboratively with the Company to get more background or more detail or, you know, work papers, work functional Excel files, and

then we can file a response in whatever docket.

I think that is an easier process. Otherwise it's a passing back and forth of the baton, and then all of a sudden you realize you don't have any time. You're at the deadline. So I think it's easier if you're more self-reliant on what you have to deliver.

Q. Okay. Thank you. I do not have any more questions.

COMMISSIONER BROWN-BLAND: All right. Commissioner Gray?

COMMISSIONER GRAY: Thank you, Madam Chair.

EXAMINATION BY COMMISSIONER GRAY:

Q. Mr. Junis, good afternoon.

A. Good afternoon.

Q. I want to change direction just a little bit.

Has the Commission, in your knowledge, used inclining block rates with other regulated water utilities in the state?

A. Not to my knowledge.

Q. Do you believe that -- does the staff believe that the use of those inclining block rates has been successful in achieving water conservation by customers?

A. Yes. Now, I don't think you can make a blanket assumption. You know, one inclining block rate structure may be very different from another inclining block rate structure. You know, the size of those blocks, the cost change between those blocks all factor into the potential impact.

Q. Does the Public Staff have any -- do you have any arguments against using inclining block rates?

A. So one argument against inclining block rates -- we're playing Devil's advocate a little bit here -- is for those large families that have a higher level of nondiscretionary usage, depending on the design of those blocks, they can be penalized. They may pay significantly more. There are other factors involved. I'm sure there are other scenarios where somebody doesn't have control, like a leak situation.

Unfortunately, if you have inclining block rates, and you have a big leak, now your leak bill just got huge. And in those circumstances, recognizing that a small percentage of the cost of providing that service is variable, I think the Company is going to need to be more -- more lenient in those circumstances. Some level of forgiveness when that happens. Because sometimes, especially with -- that you might not

discover it until a month or two later when you get a giant bill, I think it's --

(Reporter interruption due to WebEx sound failure.)

THE WITNESS: So if you don't find it until a month or two later, that big leak, I think the Company needs to be more forgiving of that impact. Because if you have an inclining block rate, the cost is going to be considerable higher. That's something that just -- you only have so much control, especially with the metering technology that they have. Those leak detection indicators aren't found until the truck rolls for that billing cycle. So if that leak starts day one of the billing cycle, that leak detection indicator or code isn't found until the end of the month when they do that billing cycle.

That is different from AMI technology that can almost instantaneously inform a customer, do they have a leak? Have they exceeded a threshold? I know of a family in Cary, they have AMI. They were gone at the beach for a week. The father got an indication on his phone, they sent a neighbor over, and a huge leak in their basement, a

finished basement. The water is dripping out of the ceiling of the finished payment. And they were able to cut off the service. And they still had water damage, but you could have had a swimming pool of a basement without that information.

So that also plays into this holistic view and approach to metering, rate design and potential reconciliations.

Q. You discuss nondiscretionary usage; i.e., minimum usage in your testimony.

Do you have data or do you know any research that might track the average minimum usage per person in Aqua's customer base or perhaps even in other states?

A. I know there's research out there. I don't have anything off the top of my head. I am happy to provide that as a late-filed exhibit, what we can pull together. It may not be specific to Aqua's customer base, and I don't know if Aqua has anything to offer there, but there's definitely research. It is a little bit variable based on how many people are in the house and stuff like that, but there's numbers out there that I think could be used.

Q. That makes it interesting, because it reminds

me of my last question.

Any data on the average household size in the Aqua systems?

A. That is not something I've looked at yet, but I assume, between census data, that there would be some representation, that you could hopefully isolate it. It might not be only specific to Aqua. You might have to do it by county as opposed to necessarily, you know, Aqua systems, but I think you could find something that would be fairly representative.

Q. Thank you.

COMMISSIONER GRAY: That's all I have, Commissioner.

THE WITNESS: Thank you, sir.

COMMISSIONER BROWN-BLAND: All right. Ordinarily, I might take a break now, but I don't know the status there in Cary.

MS. SANFORD: We would -- let's see. Commission's questions, and -- we are in the dark. There are alarms going off. There's an area -- I say alarm. There are beeping things going off.

COMMISSIONER BROWN-BLAND: So what I was going to suggest, but you tell me if that would even work, is that we continue through Mr. Junis,

as long as Mr. Thill has some ability to hear. I want to capture it while we still have your battery.

MS. SANFORD: Yes. That's a great idea, and I was going to suggest the same. That we finish with Mr. Junis, and then that we call it a day, because it's going to be a while to restore service out here.

COMMISSIONER BROWN-BLAND: Okay. So that's what we'll do, then.

MS. SANFORD: Thank you.

COMMISSIONER BROWN-BLAND: Do you have means to let me know if your battery -- if Mr. Thill loses battery?

MS. SANFORD: I will, because I have a cell phone. I'll figure that out. I'll call into this with my cell phone.

COMMISSIONER BROWN-BLAND: Okay.

MS. SANFORD: So Mr. Thill is here on my laptop and listening to whatever's left of Mr. Junis.

COMMISSIONER BROWN-BLAND: All right. Commissioner Clodfelter, you have a hand up.

COMMISSIONER CLODFELTER: In listening

to the dialogue here over the last few minutes, I have a couple of questions for Mr. Junis.

COMMISSIONER BROWN-BLAND: Are you ready to ask now?

COMMISSIONER CLODFELTER: Yes.

EXAMINATION BY COMMISSIONER CLODFELTER:

Q. Mr. Junis, I was thinking about your observations about a proper experiment or pilot program. As I understand it, it would need to reflect diversity of geography, diversity of weather conditions, diversity of economics, diversity of demographics. And as I think about that, then when I try to think about the idea, which I understand you favor, of doing a statewide inclining block structure across a multitude of different geographies, a multitude of different weather environments, a multitude of very divergent demographic and economic situations, and considerable differences in system-by-system infrastructure and operating characteristics, in order to then say that we want to find the most effective, efficient inclining block rate structures, isn't that kind of going to lead me to some conflict with the notion of a uniform rate across all of the Aqua systems? I think you get the question, but

the example is suppose you find that the most effective inclining block rate structure in a particular system, because of its geography, it demographics, its economics and its weather, is a very different inclining block rate structure than the one you impose at the other end of the state based upon the same variables, then haven't we sort of violated the principle of uniformity of rates?

A. I totally get where you're going. And I -- yes, there are complications. But I think this is where we can either strike a balance and try to find something that, to the best of its ability, serves all those customers on a uniform basis, or the consideration is do you go to a less uniform rate design? That has its own set of complications, because, number one, right now we track, based on the five rate entities, their cost. And we allocate the costs that are shared.

Would you do the same if you start breaking it apart even smaller to create these best suited or -- rate designs? Or do you just attempt to allocate based on a customer basis what that revenue requirement is, and then you're just shifting, again, how those dollars are collected to meet that total number? Then you get

into a question of, well, how fair is that? You get into the stability and sufficiency concerns of the Company.

So it's a balance that we can certainly make recommendations, but it's on this Commission to decide whether it is an appropriate balance and a fair balance.

Q. Well, let's -- for a moment, let's explore this really a little bit further. So let's say that we decide, as a Commission, that we don't want to abandon the uniform rate structure across the divisions. And therefore, would I then be correct in concluding that, in your view, the best we can do, if we adopted a uniform inclining block rate structure by division, would be an approximation on all of those different variables? Geographic, weather, demographic, economic and so forth. The best we could do would be an approximation?

A. Yes. An approximation that you hope is representative of that average.

Q. Well, okay. Thank you. And so that sort of takes me to the next kind of question, which is really kind of fundamental, and it's probably because I just don't understand the data. Is -- inclining block rate

structures are not new. I mean, there are hundreds if not thousands of instances where they've been implemented. Case study after case study after case study after case study.

For example, the one we have here in my home town, well, it doesn't have geographic diversity, but I assure you it's big enough to have significant weather diversity. It probably has more demographic and economic diversity than in the entire Aqua system. It has a good bit of infrastructure diversity given the age at which different components of the system were built.

Why can't we take the case studies we've got out there and sort through the case studies in order to sort of look and see what are the variables that best sort of need to be taken into account in terms of the Aqua North Carolina profile? Why do we need to run another pilot?

A. I agree. I absolutely agree. I think --

Q. They're all -- I mean -- excuse me for interrupting you. But as Mr. Thill correctly observed, each of them is different. He's absolutely right, they're all different. But there are so many variations in the case studies that surely we can

identify from that survey of the case studies which vary variables make the biggest impact and then mirror that against the profile of the Aqua customer set and the Aqua system operations. Why can't we do that?

A. I totally agree that you can blend or utilize something that is similar. And in the end, even with the pilot, you're still trying. You're trying to extrapolate this to the whole. Well, why collect that data and delay this implementation across the board which potentially has a much significant -- more significant impact to, you know, customers' ability to conserve, the Company's ability to potentially reduce its cost.

So I agree. I think there are best available practices that you could implement. And the hope being it's going to do a pretty good job. And maybe it takes tweaks. There are always tweaks between rate cases, right? Some -- a process that worked 20 years ago may not work now. And, I mean, obviously we see that with some of the issues that are raised in this case and prior rate cases.

Q. Okay. Thank you. I'll leave you alone. I'm sure Commissioner Hughes will school me on why my questions really didn't make sense. I'll leave you

alone for now.

COMMISSIONER BROWN-BLAND:

Commissioner Hughes, I think you had your hand up.

COMMISSIONER HUGHES: Thank you very much.

EXAMINATION BY COMMISSIONER HUGHES:

Q. Yeah. I have a series of questions largely related to rate design. They're a combination of staff questions and some things that I'm curious about. Let's just start with this 40/60 versus 30/70 split.

Is this driven at all by any operational changes as far as the Public Staff is concerned? Is this -- is there any cost justification for this, or is it all on the conservation side?

A. This is a policy conservation approach that, recognizing you now have a CAM legislature, we think eventually it will be implemented. We support the concept of a CAM. Our main concern is how that revenue reconciliation works. We agree that there is a give-and-take within a CAM that protects both sides. So we view the 30/70 as a small incremental step to promote conservation and still remain fairly consistent with the status quo without a CAM.

Q. Okay. Well, so the fact that the CAM has

been formally withdrawn for this particular rate case, does that change your recommendation for the 30/70 split at all?

A. No. And I think -- I can't remember if Thill brought this up earlier today, that we didn't really give our opinion or our position if there was a CAM. And that was because we expected there to not be, or there would be a drastic modification of their proposal, and then we would file supplemental testimony. I will say we would have had a lower base charge if there was a CAM.

Q. Okay. Switch a little bit over to the -- just to shift from a flat rate to a variable rate for sewer customers. You mentioned that this has been coming up in past cases, 274, 363.

Was it an issue for Sub part 497? Was it -- or, you know, behind-the-scenes issue for y'all, or why did it leave and then come back?

A. Yes, it was a behind-the-scenes, we got some information. I think one thing that kind of stalled that was how do you implement this for the purchase water systems? You know, how do you get that data? And that was really a hang-up. And I said let's just focus here -- again, kind of an incremental approach.

Let's focus on the data that Aqua already has. There's no cost to it. And let's implement that, and then we can learn from that; number one, does this rate design structure work well; what are the potential issues; and then we can further investigate, can you get that information for other customers? At what cost? And potentially expand metered wastewater.

And this is something that customers have consistently, in the testimony in the previous rate cases, supported. To have more control. That -- you know, to start out with a bill if they're both water and sewer, we're over $100 in just the base facility charges, essentially. That does not give customers much incentive to control their consumption. And by switching to metered wastewater, now those customers that are both water and sewer, they're sort of doubly incentivized a little bit, in terms of controlling their consumption.

Q. Okay. Thanks. This is a staff question. The -- and you alluded to it a little bit. But has the Public Staff and the Company discussed this proposal before it came to us? You were saying you had been exchanging information back and forth, but.

A. In terms of discussing what would be the --

Q. I mean, has this -- has this proposal for metered sewers been something that you've been discussing with the Company on an ongoing basis?

A. Yeah. I think, number one, we've expressed our interest in it, and then we've gotten feedback from the Company of why or why not they would want to do this. And I think Thill testified to it earlier today, that they felt that, because there is this similar ratio of fixed, in terms of the expenses, that somehow we're unfairly applying rate design to the two pieces and parts here.

That's assuming that all those customers are both. Not all those customers are both. There's way more water customers that are not Aqua sewer customers than there are vice versa.

Q. I think the staff had some questions about the actual structure that maybe wasn't clear or still open.

Would you propose a cap on the water consumption for metering sewers? I know this is kind of a common design option, and I'm not sure if that's something that you-all thought about?

A. So based on the league of municipalities and the EFC's annual reports, we weren't seeing very many

caps. We know the 363 study performed by the EFC included the evaluation of a cap. I think, by not having a cap, you are also incentivizing people to get dedicated irrigation lines. Because if they are being charged that sewer rate on top of the water rate for that irrigation usage, now all of a sudden it becomes a possibility to, I should probably get a dedicated meter so that I don't have to pay two charges for this consumption, I could just pay one. And you could also have your irrigation meter shut off seasonally and potentially save some money there.

Q. I guess you sort of answered this as incentive, but you do -- yeah, I think you answered that.

Well, witness Thill -- and hopefully he's still online -- has stated in his testimony, he said a little bit here, but you provided no support for your recommendation regarding the change to a metered sewer rate design. Would you agree with that?

A. I would not agree with that. I mean, having there been a study in the 363 rate case that was dedicated to two subjects, being metered rate design or volumetric wastewater, and then a potential mechanism, I think that justifies, customer interest justifies. I

think recognizing that you have this data and we're not using it, and on top of it the customers wanted it, all justifies the shift. And recognizing, like I talked about, while conceptually it's a 60/40, his testimony ignores that those commercial customers are now going from 35 to 65 to 60/40 also. So you're actually bumping up the base facility revenue from those customers. And also recognizing that that 40 percent of metered consumption or costs is not completely variable. It's not zero in the full amount. Any true small variation, even downward, is going to be a very small fraction of that total revenue.

Q. Staff would like just like some -- I guess, some basic numbers, and I'm not sure if you have them off the top of your head.

But how many flat-rate residential sewer customers are there as of March 31, total? And how many of those would you want to convert to metered sewer in this case?

A. Give me one second. I have that.

Q. And actually, it was by -- the question, sorry, was by rate division. So that question came for the Aqua rate sewer division and the Fairway sewer rate division. So if you have that for both, that would be

helpful.

A. Okay. How many am I shifting to metered?

Q. Yeah, the total you propose to shift --

A. Okay.

Q. -- in each of those divisions?

A. I think it would be best if I filed this late, but just as a small preview, we are shifting approximately 108,000 bills, which ties to approximately 9,000 customers from flat-rate to metered wastewater rates. That accounts for approximately 57 percent of flat rate residential customers. Does that help?

Q. Yeah. No, that helps. And I think it would be helpful for analysis, if you don't mind, if it's easy to file as a late filing.

A. Absolutely. I'll just add, for Fairways, it's almost the entirety of those customers are being shifted from flat-rate to metered consumption. I think it's like 97 percent or something like that. But I'm happy to provide a late-filed exhibit.

Q. Okay. And would you -- would you see this shift being for any of Aqua's flat-rate sewer customers that have water supply provided by another provider? So not Aqua, but someone else that was reading meters.

Are you recommending trying to have Aqua obtain water consumption from any third parties?

A. So with this rate design, we are not. We have tried to get that information in past rate cases. We didn't ask for it in this rate case. I think that's probably a next step forward, maybe next rate case. We know that, from past data requests and previous data -- or previous rate cases, it can range. Some will give it to them for free, some want $2 a month. You know, that's a cost benefit. Do we really want to pay $2 to have that flexibility? Some customers may, some customers may not, and we avoid that predicament with the current rate design.

Q. Okay. Just two last quick questions.

For the pilot -- for the pilot increasing block rate structure, how much overlap is there with those customers and these flat metered sewer customers; is there any overlap? So in other words, how many under -- if we took your shifting to variable sewer rates, and we took the increasing block rate structure pilot, would some customers get changes in both areas?

A. So for Fairways, yes, because Fairways, essentially they're applying the pilot to the entirety of their water customers and the entirety of their

flat-rate customers, we're recommending to go to the metered rate. On ANC Water, that would take a little more digging, but I don't think there's very many that would experience both of those changes.

Q. Okay. And then the last question is really just a follow-on on some of the, as you say, your passion and excitement for this. You know, you made it very, very clear about how you feel about revenue requirements on an average customer basis versus total. And I found it was interesting -- and I believe it was witness Thill, and I apologize if it wasn't, but that said very -- he was very clear and said that they rely on customer growth to cover the cost related to organic cost increases. Like salary increases going up, inflation, those types of things.

With your approach, if I'm not mistaken, customer growth would -- you know, would always go first toward just the historic revenue requirement approval. And I'm just curious, if customer growth just covered all of the lost revenue from consumption decline, what would be your views about what could possibly cover normal cost increases? Or would there just be -- that would be time to come back for a rate increase?

A. Could I say a little bit of both? We recognize that expenses change. We also try to update that as far into this process as we can. We will recognize that, you know, salary raises effective April 1 have been captured in this rate case. We captured that purchased wastewater cost that didn't happen until effective July 1. And we've put that into this revenue requirement. We really do try to capture every known and measurable change within their cost to some reasonable extent. You got to have time to actually pull it into the equations, and implement it, and make sure you haven't caused more problems than solutions.

I don't know how much the Company has really presented, in terms of does that growth cover some of those expenses? And does it make up for the decrease in consumption? I want to recognize the test-year consumption, as updated for Fairways, shot up a significant amount. And while the others pretty well stabilized, with the exception of Brookwood. Brookwood continues to go down.

And I explain this actually in a data request response. They said, well, how can you assume that it's going to flatten. I said we've already seen this

with the sewer customers. The trend beginning in 2008 was downward. You hit a valley in 2013, and then it has pretty well stabilized since then. I would expect the same thing for Brookwood because there is some level of nondiscretionary usage. You can only go so low under the current construct.

Now, if there's some drastic change in conservation in appliances or faucets, I think we've pretty well hit a level expected at least in the short term. We're not seeing some mass rollout of the purple pipe, you know, the reuse water. You know, all of a sudden, you know, people aren't going to be flushing with reuse water. Still going to be drinking water. So you have some level of nondiscretionary, and I think this is where I think Commissioner Gray went. I think I answered your question. You --

Q. I think so. I think you might have answered it in the first four words, but then gave me a different answer. When you said "both," did you mean that you would be okay, personally, if some of the growth was covering some of the increased costs and some of the growth was covering some of the -- is that what you meant when you said both? I just wanted to be clear.

A. I think I would want to see some level of analysis. How much really additional revenue is captured with growth in comparison to this concept of decreased consumption. The Company made a very big deal about not meeting their rate of return, and they gave kind of theoretical reasons. Okay. We're spending more capital; we have increased costs and expenses. But they really didn't provide a detailed analysis of the revenues and the cost to run the business, and who is really -- what is really the causation. Why aren't you earning that rate of return. Is it more tied to -- a majority tied to the capital spending; or is it more tied to your expenses.

And I know that it was brought up about testing costs and a couple of expenses where the Commission -- the Public Staff really fought for a fair expense level. They have to document it. They have to provide justification. It is not just a matter of you incurred the cost. And that was the reasoning behind the Public Staff's position on a couple of those expenses, that they feel that they haven't gotten their full costs covered.

I know that expanded beyond -- I'm not ready to commit necessarily to splitting that, in the sense

of some type of reconciliation, but I think we would consider anything. Does that -- I hope that answers it.

COMMISSIONER BROWN-BLAND:

Commissioner Hughes, you've been muted, so we didn't hear any of your response there.

COMMISSIONER HUGHES: Oh, I'm good for now, so that's great.

COMMISSIONER BROWN-BLAND: All right. Thank you. Commissioner Gray?

COMMISSIONER GRAY: Yes, ma'am. Just a couple for Mr. Junis.

EXAMINATION BY COMMISSIONER GRAY:

Q. One of them is, I'm going to ask your opinion on a matter.

If some of Aqua's sewer customers are metered and some are flat rate, would that be discriminatory in your opinion?

A. That's a good question, huh? Because I brought that up with the pilot. I think that, by recognizing the difference in the cost of service, in that for some of these customers that are currently flat rate, and it may cost more to get that information, it is appropriate that we not necessarily

transition them to metered sewer yet, until we have a better idea of what that cost is. And are we going to assign that cost specifically to those customers, or does it fall into the uniform pool of cost? Because then the customers that currently have that information available for free are paying a portion of their bill to get access to that information for other customers.

So I think that would partially, at least, address the idea of discriminatory. But it is always a concern. But since we are applying it without any prejudice, I think that's important. That we are taking the full group of customers that have that data for free and are assigning them to metered wastewater.

If we only picked out the winners and said, well, you're going to get a lower bill, and we move them to metered wastewater, and then we left the rest in flat rate, I think that would be troublesome or discriminatory.

Q. Just one more. I keep hitting my clicker and it goes faster than my fingers. The Public Staff has recommended in their rate design in this proceeding that customers be converted from a monthly flat rate sewer to the metered sewer rates.

What impact do you think that would have on

the average customer in Aqua sewer and Fairways sewer, if they are converted to the monthly flat rate?

A. So hopefully for the average customer, their bill is not going to change very much. It's the extremes, right? The low user, the high user. Low user is going to get a lower bill with metered wastewater; high user is going to get a higher bill. And that's why we took this incremental approach of the 60/40 rate design, to keep the base facility charge still on the higher end, because then there's only so much room for variation.

So that customer, instead of paying -- at least for ANC sewer, a $75 flat rate, they now pay a $45 base charge, or would potentially pay a $45 waste base facility charge. And then I just want to get the usage rate right. So 615 for 1,000 gallons. And so then you do have some control, but not to the point where it's all or nothing.

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

COMMISSIONER HUGHES: Sorry, I can't find my hand. I have one or two --

COMMISSIONER BROWN-BLAND: Commissioner Hughes?

COMMISSIONER HUGHES: Yes. There are

some staff questions that I traded. So it's really the idea of the -- I think I'm good. I think most of the questions have already been asked. Sorry about that. I'm good.

COMMISSIONER BROWN-BLAND: Okay.

EXAMINATION BY COMMISSIONER BROWN-BLAND:

Q. Mr. Junis, could you provide, as a late-filed exhibit, I believe, the calculation of the average monthly residential customer's bill based on the Public Staff recommended rates for each of Aqua's five rate entities?

A. I can absolutely do that.

Q. And then tell me whether you can provide the average monthly residential bill for each of the five systems where Aqua is proposing to initiate the pilot program.

A. Yes. Are you wanting their average bill based on the pilot rates and the Public Staff's recommendation? Or -- I just want to clarify and make sure I'm providing everything you want.

Q. Yes, that would be good.

A. Both as a comparison, right?

Q. Right.

COMMISSIONER BROWN-BLAND: Okay. So,

Madam Court Reporter, I've had you for just about two hours now. Can you make it just a little while longer, or do you need a break?

COURT REPORTER: If we could take just a quick five-minute break, that would really be helpful.

COMMISSIONER BROWN-BLAND: All right. That's what we'll do. We'll -- let's come back at 3:30, and I think we'll do questions on Commission's questions, and then we'll be -- we'll call it a day. All right. Be back at 3:30.

(At this time, a recess was taken from 3:24 p.m. to 3:32 p.m.)

COMMISSIONER BROWN-BLAND: Are there questions on Commission's questions? Any from the Attorney General?

MS. TOWNSEND: None from the Attorney General. Thank you.

COMMISSIONER BROWN-BLAND: Any from Mr. Bennink? You're on mute. Wait, you're on mute. Can you unmute?

MR. BENNINK: No questions.

COMMISSIONER BROWN-BLAND: Okay. And from Mr. Grantmyre?

MR. GRANTMYRE: Yes, the Public Staff has some follow-up questions.

REDIRECT EXAMINATION BY MR. GRANTMYRE:

Q. I'm going to start at the beginning with Commissioner McKissick's questions. And in those, you said that, in response to his question, you thought that the inclining block was insufficient because it was not geographically representative, socioeconomically representative, demographically representative, and usage-wise representative.

Now, if, in fact, the public -- if, in fact, the Company came back in its next rate case and proposed inclining block rates for all its customers in all areas of the state, and all the customers had the same inclining blocks, wouldn't that meet the criteria geographically, socioeconomically, usage-wise, and demographically?

A. Yes. So if you include everyone in that rate design, it is then representative of all of them.

Q. Now, to your knowledge -- it was testimony that seven cities, the seven largest have inclining block rates.

To your knowledge, inclining block rates in the cities, is it for the entire city, or are they just

picked out neighborhoods?

A. It would be for the entire city.

Q. Now, in your Aqua uniform rate customers that are the ANC customers, there's one rate base for the entire state, and they're all operating under the same rate base. And the same operations are spread across everyone; we don't have system-specific operational costs; is that correct?

A. That's correct. There is some level of allocation regionally, but overall, yes, it's shared.

Q. When you say "regionally," you know, that's different at Brookwood. Brookwood has its own rate base and its own separate operating expenses; and the same would be Fairways down below Wilmington, they have their own rate base and their own operating expense?

A. That's correct.

Q. All the other customers in the state, then, would be under the uniform rates, and they would have one big rate base to deal with and one great big pool of operating expenses; is that correct?

A. Yes, sir.

Q. Now, I believe you stated in Commissioner Duffley, a response to her question, that you had heard that Aqua may be filing another rate case

as early as January 2021; is that correct?

A. That's correct. In one of the data request responses provided by the Company, they had a timeline that were assumptions prior to and right when they filed this rate case. And one of those assumptions was that they would possibly file in January of 2021.

Q. But you saw where Mr. Becker said every 15 months, and that would be around March 31st of 2021?

A. That is correct.

Q. Now, do you think it would be an unreasonable delay that, instead of this pilot program, we -- it just instituted statewide inclining block rates in the next rate case?

A. I think yes. In going along with Commissioner Clodfelter's line of questioning, I think there is enough information out there that you could use a best practices to implement an inclining block rate that you would expect to work well and to function as you would expect.

Q. And you realize the seven largest cities have inclining block rates, but also many of the other larger water systems, such as, ONWASA, has increasing block rates. ONWASA, which is Orange County, Chapel Hill, has increasing block rates, Gastonia has

increasing block rates, Union County has increasing block rates. So there's plenty of -- would you agree -- in Concord, increasing block rates.

Would you agree that there's a lot of information out there we could gather and Aqua could gather to design statewide increasing block rates?

A. Absolutely. And I think some of this information has been provided in the W-100, Sub 59 docket, the rate design docket. We invested a lot of time to really educate ourselves and collect a lot of helpful information on this matter.

Q. Excuse me, I'm fumbling through my papers here. Now, to sum up, isn't it true that the Public Staff would be vehemently opposed to this pilot program because it's not a true pilot for all the reasons you've stated in your -- in your testimony?

A. That's correct, we opposed the pilot.

Q. And one of the reasons also is the data that's going to be received through it is not representative of the entire state and the entire customer base; is that correct?

A. Right. So I think you're going to have a really hard time attempting to extrapolate those findings, and so that is a flaw within this file.

Q. Now, again, if there was inclining block rates, we would want it uniform across all the customers that have inclining block rates, the same rate inclining block, correct?

A. Correct. However --

Q. Except for Brookwood and Fairways?

A. Right.

Q. They would have different, possibly?

A. That's correct. I think we would consider slightly modified inclining block rates for the different rate entities.

Q. Now, if, in fact, in the next rate case, the Commission approved inclining block rates, would it be a real possibility that, in a subsequent rate case, maybe the next or two rate cases later, that the Commission would tweak whatever the blocks are and modify it in order to get to the best inclining block rates to accomplish all our goals?

A. That's right. While I really love my rate design, I admit that it is not perfect. And no rate design is perfect. There's always room for improvement. I think that's actually something that Mr. Becker talked about the Company's management. There's always room for improvement, and we would

expect that with rate design and inclining block rate.

Q. Now, it was asked about flat-rate sewer customers that did not get water from Aqua, and the Bayleaf system, will you agree, has about 6,000 residential customers, plus or minus?

A. That's correct, I would accept that subject to check.

Q. And in your filing, I think, or either in this case or W-100, Sub 59, you said there were less than 800 wastewater customers on Bayleaf?

A. That sounds correct. I knew it was a small amount, because a lot of those are septic, but I wasn't quite sure exactly the number.

Q. And the Commission asked you to file a late-filed exhibit as to the number of wastewater customers on these other systems that -- the three other uniform rate systems, I believe it's Merion, and I forget the other two names, but the Public Staff will do that?

A. Yeah. Pebble Bay, Arbor Run, and Merion, in addition to Bayleaf/Leesville.

Q. But off the top of your head, you don't know that any of those three have wastewater customers?

A. Not off the top of my head.

Q. Now, isn't it -- weren't you involved in the past rate cases where the Public Staff asked Aqua to go to the water providers that were not Aqua for these other customers and see if they would provide meter readings to Aqua to bill these customers, and Aqua refused to contact these companies?

A. There was some pushback from the Company, if I recall. I do think we did get some of that information. I can't remember if that was by our own efforts or some of the Company's efforts, but I know that was an issue in the Sub 363 case, and less so but still an issue in the Sub 497 case.

Q. Okay. And under a billing scenario, if a customer was flat rate, isn't it a possibility he could work out with Aqua that he would provide the Company the monthly meter readings and they could bill that customer a meter rate?

A. That's certainly a possibility. Obviously, there would be a little bit of a timing concern. But you could make it function, but that would require back-and-forth communication, which I certainly recognize may have its challenges. But yes, conceptually, that is an option.

MR. GRANTMYRE: We have no further

questions.

COMMISSIONER BROWN-BLAND: All right. So we've made it through with the battery intact. And are there any -- is there any cleanup on documents here, Mr. Grantmyre?

MR. GRANTMYRE: I'm sorry. I would move that Mr. Junis' prefiled testimony and his Exhibits 1 through 17 attached to his testimony and his corrected testimony all be admitted into evidence.

COMMISSIONER BROWN-BLAND: All right. His testimony is already in, and I will receive at this time all of his Exhibits 1 through 17 into evidence without objection. And, Mr. Junis?

THE WITNESS: The requested late-filed exhibits, if the Commission staff could send those to us, I think Mr. Bennink referred to it as reduced to writing, that would be helpful. Because I do not have very good notes, but I definitely want to provide all that information.

COMMISSIONER BROWN-BLAND: All right. Well, I'm hoping his Ms. Jost and Mr. Grantmyre will help out too, but yes, our staff will do all we can to help and assist.

(Public Staff Junis Exhibits 1 through

17 were admitted into evidence.)

COMMISSIONER BROWN-BLAND: So I don't know if there's any other business to take care of. One thing just to remember, it's a good time to remind all counsel that we -- as we go here, you may want to, either at the end of these days or at the end of this process, be sure that you file the exhibits and double-check with the court reporter that the proper exhibits have been included and properly marked as we have indicated here. It's a little bit different when we're all in different locations.

It's my understanding that tomorrow we only have witness Thill at this point on rebuttal. And if it's okay with all in attendance here, we could start at 9:30 in the morning as opposed to 9:00. Is that an issue for anyone? Speak now, otherwise we will resume at 9:30 in the morning. All right. We will stand in recess.

(The hearing was adjourned at 3:45 p.m. and set to reconvene at 9:30 a.m. on Friday, July 10, 2020.)

CERTIFICATE OF REPORTER

STATE OF NORTH CAROLINA)

COUNTY OF WAKE)

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

This the 13th day of July, 2020.

JOANN BUNZE, RPR

Notary Public #200707300112