

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the matter of the Review of Economic,)
Legal and Policy Considerations of District) File No. SW-2011-0103
Specific Pricing and Single Tariff Pricing)

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AQUA MISSOURI REPLY BRIEF

Aqua Missouri appreciates the opportunity to file this reply brief in support of a consolidated rate structure policy. Aqua Missouri supports single tariff pricing for its water and wastewater systems. Single tariff pricing and a consolidated rate structure are best practices which provide benefits to customers over the long run in terms of timely infrastructure improvements and more gradual rate increases.

On March 15, 2010, the Missouri Public Service Commission (Commission) directed Aqua Missouri to file a brief delineating the arguments and social policy implications associated with whether the Commission should permit or require Aqua to consolidate all of its rate districts for the purpose of rate setting. Staff stated that it did not believe further expansion of the Company's single tariff rates is necessary at this time and that it would be inappropriate to make a policy declaration on the matter. The Office of Public Counsel opposed single tariff pricing for Aqua's systems.

Adopting a consolidated rate structure policy has many benefits. It can protect against rate shock, address small system viability issues, and control administrative costs for the utility and agencies that regulate it. If a small, stand-alone system (like many of Aqua's systems in Missouri) needs major capital improvements, a consolidated rate structure will spread these costs over a larger customer base. Over the long term, a consolidated rate structure will strengthen Aqua's water and wastewater system as a whole and ensure environmental compliance in an efficient and timely manner.

Under the consolidated company approach, all customers share the risk of significant infusion of capital, and likewise all customers share in the benefit associated with a spreading of that risk across the larger body of customers. As to the Commission's authority to impose single tariff pricing, Aqua Missouri asserts the Commission already has the authority to adopt this policy and there is nothing preventing it from applying it further. In fact, the Missouri Commission already has approved a consolidated rate strategy for Missouri electric and gas customers and for Aqua's Jefferson City wastewater systems. Just because this consolidation occurred in earlier decades for the electric and gas industries, does not prohibit the Commission from providing the benefits to its water and wastewater users now.

Rather than repeat the specific arguments in support of single tariff pricing that were discussed in Aqua Missouri's Main Brief, the Company will discuss some of the issues raised at the hearing on November 9, 2010 and offer recommendations for how the Commission should proceed. In addition, per the request of Commissioner Jarrett, the Company has attached testimony from other jurisdictions in which single tariff pricing was recently adopted.

The Company offers the following comments as a follow up to the discussions that occurred at the November 9, 2010 hearing:

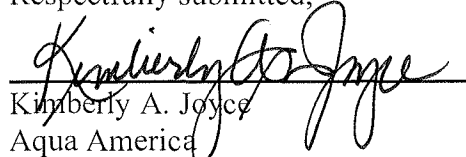
- Staff discussed two reasons at the hearing as the main disadvantages of single tariff pricing: 1) possible overinvestment and 2) it is more equitable for the cost causer to bear the burden. Staff expressed concern that single tariff pricing encourages too much investment. As to this first concern, Staff suggests that district specific pricing keeps a better check on investment and infrastructure and asserts that moving away from district specific pricing provides incentives to overspend and to overinvest. The Company respectfully disagrees with Staff's assessment. The Company clarifies that the vast majority of capital improvements made by Aqua Missouri are tied directly to environmental compliance. Second, moving towards a consolidated rate structure has no impact on the Company's continued goal of providing safe and adequate service at reasonable rates. Each and every expense and infrastructure improvement can be reviewed and challenged in the confines of a rate request. This is the exact same mechanism that is used to review electric and gas utilities that already have single tariff pricing. As a result, any concerns that Staff may have about "overinvestment" can be addressed in a rate case.
- Staff's second concern which is also supported by the Office of Public Counsel is that customers located within that system should shoulder the burden of those costs. Staff has further indicated that it is the policy of the Staff at this time to maintain district specific pricing. Without direction from the Staff or Commission providing that there is a

shift in this policy, the Company may not be inclined to even propose a consolidated rate structure. The reality is that Aqua Missouri currently files under the small water and wastewater regulations at the Commission. If the Company proposes a consolidated filing, it is highly likely that the rate case will need to be processed under Missouri's formal rate case regulations that require representation of counsel and witnesses for technical areas of expertise like return on equity. In the past, Aqua Missouri has filed under the small water and wastewater regulations and has kept its rate case expenses relatively low which directly benefits customers.

If Aqua Missouri filed under the formal regulations, Aqua anticipates rate case expense to be at least \$70,000 including legal representation and consultants for cost of capital testimony. This equates to a significant amount of rate case expense for a system of less than 4,000 customers. In addition, the Company has been informed that it will not be entitled to rate case expense as described above if it files a rate case under the formal rules and does not utilize the small water and wastewater regulations. The Commission should take this into consideration in deciding the necessity of providing direction on the issue of a consolidated rate structure and some of the challenges in discussing the idea without clear regulatory guidance.

In summary, Aqua Missouri recommends that the Commission establish a formal policy supportive of single tariff pricing.

Respectfully submitted,



Kimberly A. Joyce
Aqua America
762 W. Lancaster Avenue
Bryn Mawr, PA 19010

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**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

**DOCKET NO. W-218, SUB 274
DOCKET NO. W-224, Sub 15**

FILED

DEC 05 2008

**Clerk's Office
N.C. Utilities Commission**

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of)
Application by Aqua North Carolina, Inc., Rayco)
Utilities, Inc., Fairways Utilities, Inc., Glynnwood)
Water Systems, Inc., Mountain Point Utilities,)
Inc., Willowbrook Utility Company, Inc., Heater)
Utilities, Inc., and Mobile Hill Estates, 202)
MacKenan Court, Cary, North Carolina 27511,)
for Authority to Increase Rates)

**PREFILED DIRECT TESTIMONY OF
DAVID P. SMELTZER
ON BEHALF OF
AQUA NORTH CAROLINA, INC.**

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

2 **A.** David P. Smeltzer. My business address is 762 W. Lancaster Avenue, Bryn Mawr,
3 Pennsylvania 19010.

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

5 **A.** I am employed by Aqua America, Inc. as Chief Financial Officer ("CFO"). Aqua
6 America, Inc. is the parent company of Aqua North Carolina, Inc. ("Aqua NC" or
7 "Company").

8 **Q. PLEASE DESCRIBE YOUR EDUCATION AND BUSINESS EXPERIENCE.**

9 **A.** I graduated from La Salle University in 1980 with a Bachelor of Science degree in
10 Business Administration, majoring in Accounting, and received my C.P.A.
11 Certificate from the Commonwealth of Pennsylvania in 1982. I was employed by
12 KPMG Peat Marwick, Certified Public Accountants ("KPMG"), from June 1980 until
13 March 1986, when I joined Philadelphia Suburban Water Company ("PSW"), the
14 corporate predecessor to Aqua Pennsylvania, Inc. While employed by KPMG, I
15 worked initially as a Junior Accountant, advancing thereafter to Senior Accountant
16 and Manager. My assignments varied, including financial, manufacturing and
17 public utility clients. I was hired by PSW as Controller, was promoted in 1992 to
18 Vice President Rates and Regulatory Affairs, and in 1999 to my present position.
19 In these capacities, I have a broad base of experience in the utility finance and
20 regulatory areas.

21 **Q. ARE YOU A MEMBER OF ANY PROFESSIONAL ORGANIZATIONS?**

22 **A.** Yes, I am a member of the American Institute of Certified Public Accountants, the
23 Pennsylvania Institute of Certified Public Accountants, and the National

1 Association of Water Companies ("NAWC"). I am Chairman of the NAWC Finance
2 Committee, past Chairman of the Pennsylvania Chapter of the NAWC, its Rates &
3 Revenue Committee and the NAWC's Rates & Revenue Committee.

4 **Q. HAVE YOU PREVIOUSLY APPEARED AND PRESENTED EXPERT**
5 **TESTIMONY BEFORE STATE REGULATORY BODIES?**

6 **A.** Yes. I testified before several regulatory agencies in various states, including
7 Pennsylvania, Illinois, New Hampshire, Connecticut, and Florida.

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

9 **A.** The purpose of my testimony is to discuss Aqua NC's proposal to consolidate its
10 rate structure in this case.

11 **Q. PLEASE ELABORATE ON WHAT YOU MEAN BY A CONSOLIDATED RATE**
12 **STRUCTURE.**

13 **A.** Just like the electric, gas and telephone industries, Aqua NC is proposing a
14 consolidated rate structure in its rate request before the North Carolina Utilities
15 Commission. The Company's proposal for a consolidated rate structure involves
16 two separate, but related concepts – a uniform tariff price for water and
17 wastewater and a single cost of service for water and wastewater.

18 **Q. CAN YOU PLEASE EXPAND ON WHAT YOU MEAN BY A SINGLE COST OF**
19 **SERVICE?**

20 **A.** A single cost of service refers to treating Aqua NC operations as one entity,
21 instead of many separate systems, for purposes of establishing the Company's
22 overall revenue requirement. The rationale behind it is that, similar to gas,
23 electric and telephone companies, there are many similar services being

1 provided to individual water and wastewater systems. To name a few, Aqua NC
2 systems receive services from the same group of employees, transportation
3 vehicles, management, engineering, water quality experts and accountants.
4 Aqua NC's proposal would mean that the Company's costs and expenses would
5 be tracked by water and wastewater functions, rather than by each of the
6 individual systems.

7 **Q. WHAT WOULD HAPPEN TO RATE BASE TRACKING, SUCH AS PLANT IN**
8 **SERVICE AND CIAC?**

9 A. Utility plant records would continue to be maintained and kept separate on a
10 system-by-system basis as has been done in the past.

11 **Q. PLEASE PROVIDE AN EXAMPLE OF WHAT YOU MEAN BY A SINGLE COST**
12 **OF SERVICE.**

13 A. Currently, Aqua North Carolina, Inc. is comprised of in excess of 700 water
14 systems with over 1,600 wells. In addition, Aqua owns and operates
15 approximately 60 wastewater systems in the state. As it stands now, a utility
16 operator who works for Aqua NC provides services for multiple systems. On a
17 daily basis, he needs to record his time per system as he goes from plant to
18 plant, which is burdensome and time consuming. Then, Aqua NC accountants
19 must track not only his time per-system/per-day, but also must track gas
20 expenses, lease payments, maintenance expense, benefits, vehicle time,
21 insurance coverage, administrative in-state overheads, etc., by accounting unit.
22 In other words, Aqua NC is accounting for systems as if they were each
23 individual businesses. This fragmentation is one of the problems in the water

1 and wastewater industry today. Operating like this is not a viable, long-term
2 option. It is extremely burdensome, and we spend an unnecessary amount of
3 time splitting invoices and timesheets. Aqua NC is seeking to streamline this
4 accounting methodology by having one cost of service per utility service for all of
5 its systems. For example, this would mean that instead of different accounting
6 units for transportation expense for each of the individual systems, there would
7 only be one accounting unit for water and one accounting unit for wastewater for
8 this expense. In this example, to ensure that there is a process in place to
9 review expenses for reasonableness, all invoices would still be maintained and
10 tracked for later audits or review by parties.

11 **Q. ARE YOU AWARE OF ANY AQUA NC SYSTEMS THAT CURRENTLY**
12 **OPERATE UNDER A SINGLE COST OF SERVICE?**

13 A. Yes. Most of Heater operates as a single system under uniform rates. Filings
14 made before this Commission in previous years indicate that the Commission
15 has approved Heater's uniform rates in general rate cases concerning the Heater
16 water and wastewater systems. This practice has similarly been observed with
17 respect to Heater's newly acquired systems. *See Heater testimony, November*
18 *22, 2004, and Commission Order in Docket No. W-274, Sub 478, April 18, 2005.*

19 **Q. WHAT DO YOU MEAN BY A UNIFORM TARIFF PRICE FOR WATER AND**
20 **WASTEWATER?**

21 A. Aqua NC is proposing that the rates charged to all of its systems (except
22 Brookwood/LaGrange) be uniform, so that all customers pay the same rates for
23 similar service, without regard to where they are located. The rates requested

1 would result in average monthly water bills of \$46.73, for the 6000 gallon/month
2 customer, and a wastewater bill of \$70.22.

3 **Q. WHAT ARE SOME OF THE GOALS AND OBJECTIVES OF A CONSOLIDATED**
4 **RATE STRUCTURE?**

5 **A.** I see many benefits to a consolidated rate structure for our customers, regulators,
6 and the Company. To name a few, a consolidated rate structure facilitates
7 affordability of rates for all customers, ease of administration, customer
8 understandability, fairness, rate continuity, revenue stability and predictability for
9 the utility, and future acquisition of troubled systems. As Heater Utilities
10 successfully argued to this Commission in Docket No. W-274, Sub 478, a uniform
11 rate structure can operate as an "insurance umbrella" to protect all customers—
12 especially those of the smaller and more isolated systems—from the rate shock
13 that could otherwise occur in the event of repairs necessitated by natural disaster
14 or a massive system failure or upgrade. Under the consolidated company
15 approach, all customers share the risk of significant infusion of capital, and
16 likewise all customers share in the benefit associated with a spreading of that risk
17 across the larger body of ratepayers.

18 **Q. PLEASE ELABORATE ON THE BENEFITS OF A CONSOLIDATED RATE**
19 **STRUCTURE FOR CUSTOMERS?**

20 **A.** A consolidated rate structure facilitates cost efficient compliance with the Safe
21 Drinking Water Act (SDWA) standards, whereby capital costs incurred universally
22 are recovered similarly. This eliminates the potential for rate shock for any
23 particular system. Under stand-alone or similar rate structures, systems could

1 incur large rate increases due to capital costs to be in compliance with
2 environmental laws. Although one system may not experience large capital costs
3 in one year, it is likely that such costs will be incurred in future periods.

4 **Q. COULD YOU ELABORATE ON THIS?**

5 A. Yes. The Environmental Protection Agency (EPA), recommends over \$277 billion
6 in infrastructure improvements over the next 20 years for water utilities across the
7 nation. Many of these utilities, whether private or governmental owned, will be
8 faced with significant rate increases over the next several years. By being able to
9 levelize these costs over a larger customer base, a multi-system utility like Aqua
10 NC, is able to minimize the rate increases. It also encourages utilities to invest the
11 necessary capital costs. Some of the systems purchased by Aqua NC have
12 experienced infrastructure problems. By being able to spread these costs, it
13 facilitates small system viability throughout the state. Aqua NC also anticipates
14 that costs will be associated with adaptation to policies evolving in North Carolina
15 to deal with water supply—particularly in light of the significant growth predicted for
16 this state, combined with the recent unsettling experience with drought. The
17 Commission, the Public Staff and Aqua NC have been closely involved in a range
18 of academic, legislative and executive actions related to response to and planning
19 for drought. There is every reason to expect these efforts to proceed and to result
20 in changes in the operational and interconnection requirements of Aqua's North
21 Carolina business. This will represent yet another driver for costs of the sort that
22 are most efficiently spread across the body of ratepayers.

23 **Q. ARE THERE ANY DRAWBACK TO A CONSOLIDATED RATE STRUCTURE?**

1 A Though the transition from system-specific rates to a consolidated approach can
2 be difficult for some customers, particularly those whose tariffed rates do not
3 fully reflect the cost of serving them, I believe it to be more appropriate to focus
4 on long term policy goals and solutions. When discussing possible drawbacks,
5 the issues of fairness to certain system customers are sometimes discussed. In
6 my opinion, any possible fairness issues are alleviated over time. As indicated
7 above, with a consolidated rate structure in place in Aqua NC, major infrastructure
8 improvement costs, as well as unexpected costs, will be levelized over a larger
9 customer base. As a result, Aqua NC can minimize future rate increases on a
10 stand-alone basis. Finally, a uniform rate structure is a sound public policy,
11 because it facilitates small system viability throughout the state and encourages
12 future acquisitions of smaller troubled systems. This assures customers of those
13 smaller utilities of affordable and reliable utility services, and is important for the
14 future of the water supply business in the state of North Carolina. I believe the
15 Commission should consider long-term policy goals in determining the appropriate
16 rate structure, and should not concentrate on short-term results.

17 **Q. IS THERE ANYTHING FURTHER YOU WOULD LIKE TO ADD CONCERNING**
18 **CONSOLIDATED RATES?**

19 A. Yes, as a result of this rate structure, Aqua NC would like to be able to streamline
20 many of its processes in order to implement the efficiencies afforded to it. In our
21 filing, we are requesting a single cost of service so that we no longer are required
22 to allocate and track costs among the various systems. This will eliminate the
23 need to allocate expenses and split timesheets, thus streamlining the accounting

1 requirements. Both of these provisions would provide greater administrative
2 efficiencies for the Public Staff and the Commission staff, as well as Aqua NC.
3 Further, all future Annual Reports and rate filings should be on a consolidated
4 basis. This provides further efficiencies and reduces rate case expense, thus
5 minimizing pressure for future rate increases and benefiting customers.

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

7 **A. Yes, it does.**

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of the foregoing Prefiled Direct Testimony of David P. Smeltzer on behalf of Aqua North Carolina, Inc. by e-mail and addressed as follows:

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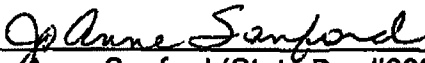
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This the 5th day of December, 2008.

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STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH

DOCKET NO. W-218, SUB 274
DOCKET NO. W-224, Sub 15

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

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Utilities, Inc., and Mobile Hill Estates, 202)
MacKenan Court, Cary, North Carolina 27511,)
for Authority to Increase Rates)

FILED

DEC 05 2008

Clerk's Office
N.C. Utilities Commission

PREFILED DIRECT TESTIMONY OF
THOMAS J. ROBERTS
ON BEHALF OF
AQUA NORTH CAROLINA, INC.

Clerk-15
AG
Culpepper
Finley
Joyner
Bennink
Foster
Hoover
Hilburn
Kite
Brown
Ex Dir
3/3 Lesa/
3/3 Acctg
2 PSECD
3/3 Water
Fernald

1 Q. PLEASE STATE YOUR NAME, YOUR POSITION WITH AQUA NORTH
2 CAROLINA, INC. ("AQUA" OR "COMPANY") AND YOUR BUSINESS
3 ADDRESS.

4 A. My name is Thomas J. Roberts. I am President and Chief Operating Officer for
5 Aqua North Carolina, Inc. My business address is 202 MacKenan Court, Cary,
6 North Carolina 27511. My responsibilities include oversight of the operations
7 and maintenance of Aqua's water and wastewater systems, which are located
8 throughout the state. Additionally, I am responsible for the orderly growth of
9 Aqua's interests in North and South Carolina.

10 Q. PLEASE DESCRIBE THE AQUA OPERATIONS IN NORTH CAROLINA.

11 A. Aqua North Carolina, Inc. is comprised of in excess of 700 water systems with
12 over 1,600 wells. In addition, Aqua owns and operates approximately 60
13 wastewater systems in the state. Aqua North Carolina, Inc. is a wholly-owned
14 subsidiary of Aqua America, Inc. ("Aqua America"), a multi-state corporation
15 which serves water and wastewater customers in 13 states: Pennsylvania, New
16 Jersey, New York, Maine, Ohio, Indiana, Illinois, Missouri, Texas, North Carolina,
17 South Carolina, Virginia and Florida.

18 Q. PLEASE PROVIDE A BRIEF DESCRIPTION OF YOUR BACKGROUND AND
19 EXPERIENCE.

20 A. I have been employed by Aqua America (formerly Philadelphia Suburban Corp.)
21 since 1981, at which time I joined the company as an Engineering Aide. I held
22 progressively responsible positions in the Engineering, Distribution and Network
23 (Maintenance and Construction) departments for almost 26 years prior to being

1 named President and Chief Operating Officer of Aqua in May 2007.

2
3 I have an Associates Degree in Applied Sciences in Civil Engineering
4 Technology from Delaware Technical and Community College in Newark,
5 Delaware and a Bachelor of Science Degree in Business Administration from the
6 University of Phoenix. I am an active member of the American Waterworks
7 Association and of the Water Works Operators of Pennsylvania, and I hold a
8 Class E, Type 1 Waterworks Operators Certificate from the Commonwealth of
9 Pennsylvania.

10 **Q. WHAT ROLE HAVE YOU PLAYED IN THE PREPARATION OF THIS FILING**
11 **FOR AN INCREASE IN WATER AND WASTEWATER RATES?**

12 A. The Application has been assembled with my participation, in conjunction with
13 legal, accounting and engineering resources from Aqua and Aqua America.

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

15 A. My testimony has four goals: (a) to offer support for Aqua's Application for a
16 general rate increase from the perspective of North Carolina management; (b) to
17 describe the operational and management characteristics of Aqua's business,
18 with specific focus on the systems included in this filing; (c) to address customer
19 service; and (d) to reinforce witness Smeltzer's testimony concerning the
20 benefits—to ratepayers, regulators and shareholders—of uniform rates across the
21 Aqua footprint.

22 **Q. WHY HAS AQUA APPLIED FOR AN INCREASE IN WATER AND**
23 **WASTEWATER RATES?**

1 A. During the test year in the Application, ending December 31, 2007, Aqua had a
2 return on common equity in North Carolina, after making the appropriate pro
3 forma adjustments, of 2.60% for water operations and of -2.08%, for wastewater,
4 as shown on page 8 of the Application. A rate increase is necessary because
5 the Company, under current rates, has been unable to earn either its authorized
6 return or any return that could be deemed reasonable due to: increases in
7 operating expenses, capital investments required to meet service obligations,
8 plant replacements, and inflation during the lengthy intervals since rates were
9 last determined. Witnesses Smeltzer, Packer and Gearhart deal with these
10 financial issues in detail. My testimony is that it is necessary for the North
11 Carolina operation to better align costs with rates, so that Aqua can maintain and
12 continue to improve the quality of service in North Carolina.

13 **Q. PLEASE DESCRIBE BRIEFLY THE REGULATORY STRUCTURE AND**
14 **HISTORY OF AQUA'S NORTH CAROLINA SYSTEMS.**

15 A. Aqua America (which was then Philadelphia Suburban Corporation) acquired its
16 first property in North Carolina on November 27, 2000, when its wholly-owned
17 subsidiary, Consumers North Carolina Water Company ("Consumers"), was
18 issued a Certificate of Public Convenience and Necessity by the North Carolina
19 Utilities Commission (Commission) to provide water and sewer service to the
20 River Park service area in Docket No. W-1150, Sub 0. On January 17, 2001,
21 Aqua America acquired the assets of Hydraulics, Ltd. by way of merger of
22 Consumers into Hydraulics, Ltd. in Docket No. W-218, Sub 143. Thereafter,
23 Hydraulics, Ltd. (which changed its name to Aqua North Carolina, Inc. on

1 January 16, 2004) acquired the assets of Piedmont Construction and Water
2 Company, Inc. by way of merger on April 15, 2002, in Docket No. W-218, Sub
3 150. Aqua continued to grow through the acquisition of existing franchises, the
4 award of new franchises and by contiguous extensions. Aqua presently serves
5 approximately 57,375 water customers and 13,825 sewer customers throughout
6 the state.

7
8 On March 13, 2003, Aqua America, Inc. was authorized to purchase the stock of
9 AquaSource Utility, Inc. ("AquaSource") in Dockets Nos. W-787, Sub 17; W-
10 1032, Sub 4; W-989 Sub 4, W-899, Sub 28 and W-981, Sub 5. AquaSource
11 Utility, Inc. owned all of the stock of Fairways Utilities, Inc., Glynnwood Water
12 Systems, Inc., Mountain Point Utilities, Inc., Rayco Utilities, Inc., and Willowbrook
13 Utility Company, Inc. All five of these companies are now operated by Aqua as
14 separate corporations and do business as Aqua North Carolina.

15
16 Heater Utilities, Inc. ("Heater") acquired the stock of Brookwood Water
17 Corporation ("Brookwood") in 1989 in Docket No. W-177, Sub 27. It acquired the
18 stock of LaGrange Waterworks Corporation ("LaGrange") on July 2, 1997, in
19 Docket No. W-200, Sub 35. Aqua America received approval to acquire the
20 stock of Heater from Allete Water Services, Inc. on May 26, 2004, in Docket No.
21 W-274, Sub 465 and as a result acquired control of Brookwood and LaGrange.
22 Brookwood and LaGrange continued to operate as separate corporations with
23 separate rate tariffs. Brookwood presently serves approximately 8,109 water

1 customers and LaGrange presently serves approximately 6,065 water
2 customers. One system owned by Brookwood is connected to a system owned
3 by LaGrange.

4
5 On June 1, 2007, in Dockets No. W-218, Sub 250, W-177, Sub 53, W-200, Sub
6 48 and W-218, Sub 251, a joint Application was made to the Commission for
7 approval of the merger of Brookwood and LaGrange into Aqua as well as for
8 authority to increase rates. On June 29, 2007, the Commission approved the
9 merger of Brookwood and LaGrange into Aqua, in Docket No. W-218, Sub 250,
10 W-177, Sub 53, and W-200, Sub 48. Brookwood and LaGrange operate as the
11 Fayetteville Division of Aqua North Carolina, charging the uniform rates for both
12 companies authorized by the Commission in Docket No. W-218, Sub 251.
13 Notwithstanding the merger, this Fayetteville Service Area maintains books and
14 records separate and apart from Aqua and Heater.

15 **Q. PLEASE DESCRIBE THE PROPOSED PLAN OF REORGANIZATION OF THE**
16 **EXISTING REGULATORY STRUCTURE.**

17 **A.** Aqua seeks to integrate the various units of the Aqua holdings into a
18 consolidated corporate structure that reflects the reality of operation across its 42
19 county footprint. Aqua also seeks to move towards rate structures that reflect the
20 reality and the benefits—to both its ratepayers and its shareholders--of
21 ownership and operation of these systems on a consolidated basis by a multi-
22 state company which brings significant resources and expertise to its North
23 Carolina customers. Aqua, Heater and the five companies acquired with the

1 purchase of the AquaSource stock have requested permission to merge all the
2 referenced corporations into Aqua, and on Monday, November 24th, 2008, at its
3 Agenda Conference, the Commission voted to allow that merger, subject to
4 specified terms and conditions.

5 **Q. PLEASE DESCRIBE BRIEFLY THE ORGANIZATIONAL STRUCTURE OF**
6 **AQUA'S NORTH CAROLINA OPERATIONS.**

7 A. Aqua owns and operates in excess of 700 water systems and approximately 60
8 wastewater systems in North Carolina and employs directly approximately 165
9 people, geographically dispersed across a broad swath of the state. The
10 headquarters of Aqua's North Carolina operation are located in Cary and the
11 Cary office also functions as the largest of the operational centers in the state.
12 Regional offices are located in Cary, Denver, Mt. Airy, High Point, Fayetteville
13 and Wilmington. Through this network of regional operations, Aqua is able to
14 operate as an integrated statewide organization, drawing resources and
15 expertise from throughout the state as needed for support of the various
16 systems. The various operating centers are responsible for the operation and
17 maintenance of defined systems in relatively close geographic proximity to their
18 offices. Aqua Engineering resources are based in Cary, with additional
19 resources in Denver. The Compliance Department has resources in both Cary
20 and Denver. Aqua's Corporate Development resources are based in the Cary
21 office. Customer Field Services (meter reading, meter replacement, etc.) is
22 concentrated in the Cary and Denver offices with involvement from all regions.
23 Additionally, these statewide resources are significantly supplemented by strong

1 centralized support located in Aqua America's national headquarters in Bryn
2 Mawr, Pennsylvania. The corporate support provides expertise and assistance
3 in the areas of customer service, billing, regulatory compliance, engineering,
4 accounting and legal support.

5 **Q. ARE YOU FAMILIAR WITH THE CUSTOMER RESPONSE TO THE**
6 **COMPANY'S APPLICATION IN THIS CASE?**

7 A. Yes. I attended every hearing, have read all of the postings on the NCUC
8 website in this docket, and have personally reviewed all customer complaints that
9 were raised at the public hearings held in this docket thus far.

10 **Q. WHAT IS THE COMPANY DOING IN RESPONSE TO THE CUSTOMER**
11 **SERVICE-RELATED COMPLAINTS RAISED AT THE PUBLIC HEARINGS?**

12 A. Company representatives are reviewing every single issue raised at the public
13 hearings and will continue to do so. Depending on the nature of the issue, Aqua
14 is following up with a phone call or field visits. Where complaints can be resolved
15 by additional service or information, the Company is making every effort to do so.
16 Additionally, Aqua will provide a written report to the Commission detailing all
17 responses, as it did in the Brookwood/LaGrange case.

18
19 The Company is being candid with customers about its understanding that: (a)
20 customers never welcome rate increases; (b) this is a particularly difficult time to
21 come to customers and the Commission with an Application for increased rates;
22 (c) opposition to rate increases exists without regard either to how long it has
23 been since rate relief was granted last or to the level of consumption; and (d)

1 Aqua's commitment to providing reliable, quality water and wastewater service
2 requires capital for persistent investment and improvement.

3 **Q. PLEASE DESCRIBE SOME OF THE IMPROVEMENTS THAT AQUA HAS**
4 **MADE IN ORDER TO BEST SERVE ITS CUSTOMERS.**

5 A. The Company's first priority is addressing systems that it purchased with any
6 compliance issues or systems needing major capital improvements. For
7 example, in some of the existing Heater systems we have had to address
8 regulations that have changed regarding naturally occurring radium. Aqua was
9 able to draw upon its experiences both in North Carolina and other states to
10 develop an efficient, reliable treatment solution. Without the advantage of the
11 consolidated Heater tariff, this cost would have been borne by a relatively small
12 number of customers, potentially causing the need for additional rate increases
13 in order for the Company to earn a fair return on its investment.

14
15 In addition, Aqua has initiated a new annual forum designed to better educate
16 and communicate with our customers. This forum (held annually in several
17 locations through our service area) is called Aqua Connects. At these meetings,
18 Aqua management personnel are present to answer billing, water quality and
19 operational questions. These meetings also educate our customers on water
20 conservation issues and allow an opportunity for Aqua's staff to hear and speak
21 directly with our customers.

22 **Q. HAS AQUA IMPROVED ITS CUSTOMER CALL CENTER OPERATION?**

23 A. Yes. First of all, Aqua has a robust call center operation, with centers located in

1 North Carolina, Illinois and Pennsylvania. Customer calls are routed to the first
2 available customer service representative (CSR), and that representative has
3 access to that customer's account electronically—without regard to the location
4 of the customer or the call center. Aqua tracks four primary performance metrics
5 for its call center: the average speed service level, the average speed to answer,
6 the abandoned call rate, and average handle time. These metrics are significant,
7 because they measure customers' access to our Company. It is important that
8 calls are answered quickly and handled efficiently. These metrics allow Aqua to
9 monitor performance and allocate resources and make adjustments as needed to
10 make sure that customers are able to reach us.

11 **Q. CAN YOU ELABORATE ON HOW THE COMPANY'S PERFORMANCE**
12 **METRICS ARE UTILIZED?**

13 A. Yes. The call center management teams have specific goals designed to focus
14 the activities of themselves and their CSR teams. These goals are part of their
15 formal performance plans which reflect goal statements typical of call centers,
16 including goals for abandon call rate, service level, and average handle time.

17 **Q. WHAT PROACTIVE STEPS HAS AQUA AMERICA TAKEN TO IMPROVE THE**
18 **QUALITY OF ITS CUSTOMER SERVICE?**

19 A. In February 2008, Aqua America increased call center staffing at all three call
20 centers (including the southern call center located in Cary), initiated a quality
21 assurance program, launched an internal call center communication tool, and
22 started a new CSR training program. Since February 2008, the call quality
23 scores have consistently improved, and Aqua customers should continue to see

1 positive benefits. The quality monitoring program allows for review of customer
2 calls randomly selected for each CSR in the call centers. Each CSR participates
3 in a monthly coaching session with their supervisor with specific feedback from
4 the quality assurance team. This feedback is used to identify areas of good
5 performance and areas where improvement is needed. Systemic issues are
6 identified and rolled into the new training program.

7
8 Additionally, a new call center communications tool has been introduced on
9 Aqua's intranet site to alert CSRs to training tips, procedural changes and
10 emergency information that may impact customers. Training consists of both
11 corporate and local resources. Formal "new hire" training is conducted by a
12 centralized team that travels quarterly to each of the three call center sites. Each
13 of the call centers has a cadre of senior CSRs who sustain the knowledge
14 transfer by providing side-by-side peer training.

15 **Q. IS THERE A PROCESS IN PLACE FOR CUSTOMERS TO TALK TO A**
16 **SUPERVISOR?**

17 **A.** Yes. It is Aqua's policy to call back all customers upon their request to talk to
18 supervisor within 48 hours of the initial call. When complaints of this nature are
19 brought to our attention, we investigate the case to discuss the root cause of the
20 process breakdown and follow-up by indentifying any improvement that might be
21 necessary. If a customer should have an emergency, they may choose an option
22 during the call-in process that makes their call a priority for the call center.

1 **Q. WHAT IMPACT WOULD CONSOLIDATION, RESULTING IN UNIFORM**
2 **RATES, HAVE ON THE MANAGEMENT AND OPERATIONAL**
3 **CHARACTERISTICS OF AQUA?**

4 **A.** Uniformity in rates across the Aqua footprint would align the accounting and rate
5 structure with the optimal mode of operation of these myriad systems. The
6 systems are most efficiently and prudently operated as part of an integrated
7 company that provides common resources to all of the previously individual
8 operations. The fractured, stand-alone rate configuration that currently exists
9 weakens the benefits available from Aqua's centralized, sophisticated resource
10 pool, unnecessarily complicates regulatory oversight, hinders a public policy that
11 increasingly views water as a shared resource, exposes individual systems to
12 rate shock in the event of major investment, and—in some instances—
13 inadvertently incents excessive consumption due to incorrect pricing signals. In
14 addition, it undermines Aqua's incentive to acquire troubled systems that would
15 benefit from the resources Aqua provides.

16 **Q. HOW DOES AQUA NORTH CAROLINA, INC. SUPPORT THE**
17 **APPLICATION FOR RATE INCREASE IN THIS FILING?**

18 **A.** Mr. Anzaldo, Treasurer of Aqua America's subsidiaries and speaking as the
19 Company expert on capital structure and cost of debt and equity, addresses the
20 requested increase in allowed rate of return. Mr. Packer, Assistant Manager of
21 Rates for Aqua Services, Inc., addresses the accounting adjustments, as well as
22 the significant additions to utility plant in service. Mr. Gearhart, Aqua's

1 Controller, addresses the Operations and Maintenance Expense adjustments
2 that support the Application for a rate increase.

3 **Q. PLEASE DESCRIBE THE BASIC CONCEPT OF RATE CONSOLIDATION.**

4 A. Consolidated (or "statewide uniform") rates reflect the use of a unified rate
5 structure for multiple water and wastewater service areas that are owned or
6 operated by a single utility. Under consolidated pricing, customers pay a utility
7 the same rate for similar service, regardless of the physical location of their
8 service area. A consolidated rate structure can protect against unaffordable
9 rates, address small system viability issues, and control administrative costs for
10 the utility and agencies that regulate it. If a small stand-alone system (like many
11 of Aqua's systems in North Carolina) needs major capital improvements, a
12 consolidated rate structure will spread those costs over a larger customer base.
13 Over the long term, a consolidated rate structure will strengthen Aqua's water
14 and wastewater system as a whole. By being able to minimize rate shock to
15 customers and spread the increasing cost of required capital improvements,
16 Aqua is able to respond to capital needs in a timelier manner. If the risk of
17 recovery is minimized, financial decisions can be more readily made to ensure
18 compliance is achieved in an efficient and timely manner.

19 **Q. HAS THE COMMISSION PREVIOUSLY ADDRESSED RATE**
20 **CONSOLIDATION FOR ANY OF THE SYSTEMS CURRENTLY OWNED BY**
21 **AQUA WHICH ARE INCLUDED IN THIS RATE CASE?**

22 A. Yes. Aqua's two largest rate divisions, Aqua North Carolina, Inc. (formerly

1 Hydraulics) and Heater Utilities each operate under uniform tariffs. In addition,
2 the Commission implicitly recognized, in its W-274, Sub 465 Order, the benefits
3 of consolidated rates when it incentivized Aqua to acquire troubled water and
4 wastewater systems. This kind of activity is made possible by spreading the cost
5 of the acquisition and related upgrade over a large base of customers.
6 Additionally and for purposes of dealing with issues concerning drought, the
7 Commission dealt with Aqua as a consolidated entity, imposing restrictions that
8 applied company-wide.

9 **Q. PLEASE DESCRIBE THE RECENT MANAGEMENT CHANGES MADE BY**
10 **AQUA IN NORTH CAROLINA AND THE SIGNIFICANCE OF THOSE**
11 **CHANGES.**

12 **A.** In the spring of 2007, Aqua America instituted significant changes in its North
13 Carolina management and operations, reflecting a commitment to stronger
14 customer service, positive growth and fiscal responsibility. Aqua is committed to
15 maintaining the benefits and efficiencies of strong centralized support,
16 maximizing the beneficial synergies (both for provider and customer) that arise
17 from a qualified multi-state operation, and strengthening the authority and ability
18 of state management to deal responsively with North Carolina customer needs
19 and regulatory compliance requirements.

20
21 One specific management change is reflected in the designation of Christopher
22 Franklin as Regional President of Aqua America South. Mr. Franklin has 16
23 years experience in the regulated arena, 15 of those years with Aqua America.

1 The southern region, which he now leads for Aqua America, contains operations
2 in both of the Carolinas, Florida, Texas and Virginia. As earlier indicated, in late
3 May 2007, I was named President and Chief Operating Officer of Aqua North
4 Carolina after 26 years with the Pennsylvania operation. Together, Mr. Franklin
5 and I bring an abundance of direct experience in regulated industries, as well as
6 specific experience with and confidence in the Aqua organization.

7
8 Aqua continuously strives to improve its level of timely compliance and
9 cooperation with its regulators here in North Carolina, recognizing that
10 customers, regulators and shareholders all benefit. Aqua is also demonstrating
11 commitment to working with policy makers in addressing the riveting issues that
12 North Carolina faces with respect to its water resources.

13 **Q. DOES YOUR EXPERIENCE IN THIS RATE CASE SUPPORT YOUR VIEW OF**
14 **THE VALIDITY OF THE COMPANY'S REQUEST FOR A CONSOLIDATED**
15 **RATE STRUCTURE?**

16 **A.** Yes. It is my firm opinion at this stage of this very difficult case that the rationale
17 for a true consolidation of Aqua's North Carolina systems is actually reinforced
18 by the experience of everyone (Aqua, consumer advocates, Commission and
19 customers) involved in the case. Regulatory examination of this company with
20 the current focus on a system-specific derivation and allocation of common costs
21 is inefficient and does not reflect the business reality of running the statewide
22 operations with additional national resources. Additionally, it does not fully
23 capture the benefits of a large, consolidated provider, and requires excruciating

1 expenditure of regulatory and Company time and effort. If it were necessary to
2 retain this approach in order to protect consumers, and if a significant advantage
3 to this approach could be demonstrated over the consolidated approach
4 requested by Aqua, then that would support continuation of the current regime.
5 However, Aqua submits that the uniform rate structure utilized with respect to the
6 Heater and the current Aqua tariffs: (a) demonstrates a superior approach to both
7 provision of service by the Company and regulatory oversight by the Commission
8 and Public Staff, and (b) supports proper public policy concerning acquisition,
9 operation and maintenance of water and wastewater systems, especially as
10 North Carolina's policy evolves to accommodate population growth and aging
11 infrastructure needs.

12
13 Certainly the difficulties posed by this Application are significant, as rate relief
14 requests have not kept pace with increased costs and investments made by the
15 Company. This is variously the responsibility of Aqua and its predecessor
16 companies. Further, some customers are accustomed to long-standing traditions
17 of low rates which encourage high usage, and an abrupt transition to sharply
18 higher rates raises the issue of rate shock. The Company fully understands this,
19 and filed this case knowing both that it needed to request permission to move
20 decisively to a more rational business and regulatory model and that such
21 movement must be measured.
22

1 It is my view that customer testimony itself, though couched in the form of
2 objections and protests, actually illustrates the rationale for moving to a
3 consolidated structure. Here are my reasons for this conclusion:
4

5 1. Though unclear to many who testified, the necessity for Aqua or any other
6 public utility provider to be allowed and encouraged to purchase under-
7 performing systems and improve them is well-understood by this
8 Commission, the Public Staff and the Attorney General. As earlier
9 indicated, a consolidated structure (re. corporate organization tariffs and
10 single cost of service) helps support this activity, and Aqua believes that
11 this approach to acquisition and improvement is in the public interest.
12

13 2. Some customers seek improvements to their systems, particularly those
14 that are aging; yet no customer of a small system wants to bear the
15 complete brunt of major investments at any particular time. The Rural
16 Center, in its report "Water 2030," estimates that North Carolina's *public*
17 water, storm water and wastewater utilities will require investments of over
18 \$16 billion to keep pace with population growth and infrastructure
19 improvements by 2030: \$6.85 billion in the first five years after the report.
20 Though focused on the public systems (Aqua is private), the report is
21 nonetheless suggestive of similar challenges in the private water sector—
22 a sector that does not have access to public funds for infrastructure

1 improvement, even though it too serves North Carolina citizens across the
2 state.

3 *(NC Rural Center, "Water 2030," <http://www.ncruralcenter.org/pubs/capitalneeds.pdf>)*
4

5 3. Customers with newer systems generally do not want to share any
6 responsibility for any costs not specific to their system, and some
7 customers even object to recovery of any return or profit for the operation
8 of their system. The latter is an unsustainable proposition, of course, and
9 as to the former it is clear that today's newer systems are ageing by the
10 day and over time will require significant re-investment. Additionally,
11 systems are also advantaged by the efficiencies and centralized resources
12 available to Aqua, and they should share in the costs thereof.
13

14 4. The objections from customers who have been long accustomed to low
15 rates (relative both to surrounding comparable systems and to the rest of
16 Aqua) and, in many cases, to high levels of watering, are understood.
17 Significant percentage increases in rates would be required to make these
18 rates uniform with the rest of Aqua, and "rate shock" is a consideration in
19 the context of this case. However, Aqua submits that it is fair and
20 appropriate to make very significant steps towards assignment of core
21 common costs to customers of these systems, recognizing that rate parity
22 may need to be accomplished over time.

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

24 **A. Yes, it does.**

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CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of the foregoing Prefiled Direct Testimony of Thomas J. Roberts on behalf of Aqua North Carolina, Inc. by e-mail and addressed as follows:

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This the 5th day of December, 2008.

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1 **BEFORE THE VIRGINIA STATE CORPORATION COMMISSION**

2 **AQUA VIRGINIA, INC.**

3 **REBUTTAL TESTIMONY OF DAVID P. SMELTZER**

4
5 **Q. What is your name and business address?**

6 **A.**David P. Smeltzer. My business address is 762 W. Lancaster Avenue, Bryn Mawr,
7 Pennsylvania 19010.

8 **Q. By whom are you employed and in what capacity?**

9 **A.**I am employed by Aqua America, Inc. as Chief Financial Officer ("CFO").

10 **Q. Please describe your education and business experience.**

11 **A.**I graduated from La Salle University in 1980 with a Bachelor of Science degree in
12 Business Administration, majoring in Accounting, and received my C.P.A.
13 Certificate from the Commonwealth of Pennsylvania in 1982. I was employed by
14 KPMG Peat Marwick, Certified Public Accountants ("KPMG"), from June 1980
15 until March 1986, when I joined Philadelphia Suburban Water Company ("PSW"),
16 the corporate predecessor to Aqua Pennsylvania, Inc. While employed by KPMG, I
17 worked initially as a Junior Accountant, advancing thereafter to Senior Accountant
18 and Manager. My assignments varied, including financial, manufacturing and
19 public utility clients. I was hired by PSW as Controller, was promoted to Vice
20 President Rates and Regulatory Affairs, and in 1999 to my present position. In
21 these capacities, I have a broad base of experience in the utility finance and
22 regulatory areas.

23 **Q. Are you a member of any professional organizations?**

1 A. Yes, I am a member of the American Institute of Certified Public Accountants, the
2 Pennsylvania Institute of Certified Public Accountants, and the National
3 Association of Water Companies ("NAWC"). I am Chairman of the NAWC
4 Finance Committee, past Chairman of the Pennsylvania Chapter of the NAWC, its
5 Rates and Revenue Committee and the NAWC's Rates and Revenue Committee.

6 Q. **Have you previously appeared and presented expert testimony before state**
7 **regulatory bodies?**

8 A. Yes. I testified before several regulatory agencies in various states including
9 Pennsylvania, Illinois, New Hampshire, Connecticut, Florida and North Carolina.

10 Q. **What is the purpose of your rebuttal testimony?**

11 A. The purpose of my rebuttal testimony is to clarify what Aqua Virginia is asking of
12 the Commission in light of statements made by Staff, Mr. Glen Watkins for the
13 Attorney General's Office and Mr. D. Wayne Trimble for the Lake Land 'Or
14 Property Owners Association about consolidation of rates.

15 Q. **What is Aqua Virginia requesting in its rate application concerning**
16 **consolidation of rates?**

17 A. Aqua Virginia is requesting permission from the Commission to:

18 1) consolidate its revenue requirements (which some witnesses also refer to as
19 consolidating cost of service) into one water and one wastewater revenue
20 requirement or cost of service going forward;

21 2) consolidate its books and records and allow the Company to operate as only two
22 divisions, one water division and one wastewater division; and

1 3) have one tariff rate for water service and one tariff rate for wastewater service
2 (i.e. consolidated rate structure) or achieve substantial movement towards that goal.

3 **Q. Please elaborate on what you mean by a consolidated revenue requirement**
4 **and consolidated rate structure.**

5 **A.** A consolidated revenue requirement and consolidated rate structure affects many
6 aspects of our business. Three Aqua Virginia witnesses discuss the benefits of a
7 consolidate revenue requirement and consolidated rate structure in their direct
8 testimony: 1) Witness Odell as our operator discusses the advantages of
9 consolidation on operations on his pages 7 to 8; 2) Witness Szczygiel, our
10 accounting witness, discusses advantages in streamlining accounting and business
11 procedures on his pages 8 to 13; and 3) Witness Franceski discusses the calculation
12 of Aqua Virginia's proposed consolidated rate structure on his pages 3 and 4. This
13 reflects the broad impacts that a consolidated revenue requirement and consolidated
14 rate structure can have. It can positively affect operations, accounting and financial
15 reporting and even rates over the long run.

16 As mentioned above, Aqua Virginia is seeking the Commission's permission to: 1)
17 consolidate its water and wastewater revenue requirement going forward; 2)
18 consolidate its books and records so that the Company is operated as one water
19 division and one wastewater division; and 3) have one tariffed rate for water and
20 one tariffed rate for wastewater (i.e. consolidated rate structure) or substantial
21 movement towards that goal. The first request is to have one revenue requirement
22 (i.e., a single cost of service) for water going forward and one revenue requirement
23 for wastewater going forward. This request does not have anything to do with rate

1 design or tariffs. It will allow Aqua Virginia to essentially run as one water
2 division and one wastewater division for ratemaking purposes. If the Commission
3 is in agreement that a consolidated revenue requirement/cost of service is beneficial,
4 I believe that the Commission should separately so state in its final order so that the
5 Company can properly consolidate its water and wastewater revenue requirement in
6 the future. This would allow the Company to file just one rate case for water and
7 one rate case for wastewater in the future.

8 In addition, a consolidated revenue requirement (or single cost service) will treat
9 Aqua Virginia's operations as one entity, instead of many separate systems. This is
10 key to Aqua Virginia's proposal. Without a consolidated revenue requirement and
11 movement toward a single tariff pricing structure, the merger of Aqua's Virginia
12 regulated legal entities, which the Commission has already approved, does not
13 remedy the inefficiencies associated with having twenty one different revenue
14 requirements as is the case now.

15 A consolidated rate structure is a separate, but related request dealing strictly with
16 rate design. A consolidated rate structure spreads costs of capital projects over a
17 larger base, making substantial improvements to the Company's systems more
18 affordable to its customers.

19 **Q. Does Staff generally support consolidation of Aqua Virginia's revenue**
20 **requirement and rate structure?**

21 **A.** Yes. Based on my review of Mr. Tufaro's and Mr. Armstrong's testimony, it
22 appears that Staff generally supports consolidation of Aqua Virginia's water and
23 wastewater revenue requirement and rate consolidation. Mr. Tufaro proposes

1 several different rate design scenarios as more fully described in Mr. Franceski's
2 testimony. However, none of Mr. Tufaro's proposals provide substantial
3 movement towards a consolidated rate structure.

4 **Q. Do you agree with Staff proposed rate design proposal?**

5 A. I am in favor of a stronger movement towards a consolidated rate structure with
6 single usage rates. While Aqua Virginia would not object to some gradualism in
7 rates (assuming it is receiving its full revenue requirement), having a different
8 usage rate for each of the 17 water systems is not a substantive or meaningful step
9 towards rate structure consolidation. As stated previously, delaying substantive
10 movement towards a consolidated rate structure will only delay the benefits
11 associated with it. With that being said, as long as the Commission approves a
12 single revenue requirement approach which allows the Company to recover its full
13 revenue requirement and allows Aqua Virginia to consolidate its books and records,
14 the Company understands that there are numerous rate design scenarios that can be
15 established. The key is designing rates that eliminate multiple tariff filings and
16 confusion for customer service representatives and customers. Aqua Virginia
17 witness Mr. Franceski has proposed an alternative rate structure (Alternative #5 in
18 his rebuttal testimony) which provides a gradual approach as described by Mr.
19 Tufaro.

20 **Q. Does the Attorney General's Office generally support consolidation of Aqua**
21 **Virginia's revenue and rate structure?**

22 A. Yes. On page 8 of Witness Watkins' testimony, he states that the advantages of
23 Aqua Virginia's consolidated revenue requirement proposal outweigh the potential

1 disadvantages and recommends the Commission accept Aqua Virginia's proposal
2 to use a consolidated revenue requirement for ratemaking, separate for water and
3 wastewater. Regarding rate consolidation, Mr. Watkins states that he does not
4 oppose it, however, he favors a more gradual movement.

5 **Q. Do you agree with Witness Watkins' proposed rate structure?**

6 **A.** No. Witness Watkins' proposal, particularly regarding usage rates, does not
7 substantially move towards rate consolidation. While Aqua Virginia would not
8 object to some gradualism in rates (again, assuming it is receiving its full revenue
9 requirement), having a different usage rate for each of the 17 water systems is not a
10 substantive or meaningful step towards consolidation. One of the benefits of a
11 consolidated rate structure includes streamlining tariffs and avoiding customer and
12 billing confusion. Under Mr. Watkins' proposal, the Company will make little
13 progress in this rate filing towards this goal.

14 **Q. On page 8 and 9, D. Wayne Trimble comments that Aqua Virginia has not**
15 **demonstrated that there will be a lowering of any costs and alleges that the**
16 **Company has not defined future benefits to its customers. Do you agree with**
17 **these statements?**

18 **A.** No. Aqua Virginia did in fact identify costs that would be decreased through rate
19 consolidation and these were addressed by Staff. Much like Witness Watkins, I
20 agree that the biggest advantage of consolidated ratemaking from a consumer
21 interest perspective is the future sharing of system expansion and improvement
22 costs. Over the long run, all systems will experience capital expenditures and
23 while they might not be known today, a consolidated revenue requirement will

1 help prevent radical one-time increases for individual water or wastewater
2 systems.

3 **Q. Mr. Trimble appears to allege that the Commission would not be able to**
4 **review future Aqua Virginia rate cases. Do you agree?**

5 **A.** No. While future cases would be filed on a consolidated basis, the Commission
6 will still be able to review the filing in detail. As mentioned in Mr. Szczygiel's
7 direct testimony on page 9, utility plant records would continue to be maintained
8 and kept separate on a system-by-system bases as has been done in the past. The
9 main difference is that there would only be one accounting unit for individual
10 expenses Aqua Virginia wide. This would not prevent the Commission from still
11 reviewing all the Company's expenses.

12 **Q. Does this conclude your rebuttal testimony?**

13 **A.** Yes, it does.