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SC PUBLIC SERVICE COMMISSION

BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 2012-94-S

IN RE: Application of Palmetto Wastewater Reclamation LLC, d/b/a Alpine Utilities for adjustment of rates and charges for, and modification to certain terms and conditions related to the provision of sewer service.	**DIRECT TESTIMONY OF EDWARD R. WALLACE, SR., CPA**

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Edward R. Wallace Sr. My principal place of business is 10913 Metronome Drive, Houston, Texas, 77043.

Q. WHERE ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed as the President and CEO of Ni America Capital Management LLC, or "Ni America," and all of its subsidiaries, which includes the applicant in this proceeding, Palmetto Wastewater Reclamation LLC, doing business as Alpine Utilities, which I will hereafter refer to as "PWR" or the "Company."

1 **Q. WHAT IS YOUR EDUCATIONAL BACKGROUND, TRAINING, AND WORK**
2 **EXPERIENCE?**
3 A. I graduated, *cum laude*, from Texas A&M University with a Bachelor of Business
4 degree. I am a certified public accountant licensed to practice in the State of Texas. I
5 have applied to the South Carolina Board of Accountancy for reciprocity. I have worked
6 with or in the utility industry my entire career and have over fifteen years of experience
7 in water and wastewater. I was first employed by Coopers & Lybrand in 1978 where I
8 ultimately became a partner. During my time with Coopers & Lybrand, I served on its
9 behalf at the Financial Accounting Standards Board from 1986 until 1988, working on
10 projects in the leasing and utility industries. From 1991 until 1995 I worked in
11 investment banking, structuring transactions for both private and public companies in the
12 leasing and utility industries. During those years, I was either a partner of various
13 regional private firms or employed as a Director by CS First Boston. In 1996 I founded
14 AquaSource, Inc., (a multi-state water and wastewater company) and led a team of
15 individuals responsible for completing over 150 transactions in just over two years for
16 clients involved in the water/wastewater industry and the propane gas industry. During
17 that time the business grew from 16 employees with no revenues to over 1,100
18 employees and almost $200 million in revenue. Beginning in April 2007, I co-founded Ni
19 America and became President of the water and wastewater utilities that are its
20 subsidiaries. As the Commission is aware, the South Carolina subsidiaries of Ni America
21 are Palmetto Utilities, Inc. and PWR, the latter of which owns the Alpine and Woodlands
22 wastewater systems.

1 Q. **WHAT ARE YOUR JOB RESPONSIBILITIES IN YOUR CURRENT POSITION?**

2 A. As President and CEO of Ni America, I am ultimately responsible for all
3 acquisitions and day-to-day operations of seven utility subsidiaries, serving
4 approximately 30,000 customers in three states. As President of PWR specifically, my
5 responsibilities include the day-to-day oversight of Company's management, its
6 wastewater treatment operations, customer billing and relations, and supervision of
7 environmental compliance.

8

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

10 A. The purpose of my testimony is to support the PWR application for rate relief for
11 service provided to customers in the Alpine portion of PWR's service area and provide
12 the Commission with an overview of (1) Ni America and PWR's continuing commitment
13 to bring undercapitalized utility systems into regulatory and environmental compliance
14 and to strive to achieve best industry practices in customer service and operations, (2) our
15 inclusion in the rate filing of expenses relating to cleaning and repairing certain satellite
16 collection systems which are not owned by PWR but connect to its main wastewater
17 trunk line and, as such, are critical to maintaining environmental integrity in its collection
18 system, and (3) the proposed capitalization and subsequent accounting treatment of
19 certain underground expenses normally expensed under the NARUC chart of accounts.

20

21 **Q. WHAT IS NI AMERICA'S AND PWR'S COMMITMENT TO REGULATORY**
22 **AND ENVIROMENTAL COMPLIANCE, BEST INDUSTRY PRACTICES, AND**

CUSTOMER SERVICE AND HOW HAS IT DEMONSTRATED THAT COMMITMENT?

A. Ni America was founded in April 2007 to acquire small to mid-sized water and wastewater companies. Ni America's management consists of 17 dedicated employees with over one hundred combined years of water and wastewater experience. The members of the management team of Ni America pride themselves on having the reputation and dedication to bring undercapitalized utility systems into regulatory and environmental compliance and striving to achieve best industry practices in customer service and operations. In August of 2011, PWR acquired Alpine Utilities, Inc., which was an undercapitalized system plagued with numerous Sanitary Sewer Overflows (SSOs) and desperately in need of plant upgrades and cleaning and repair of its collection systems. In June of 2011, we entered into a Memorandum of Understanding (MOU) with the South Carolina Department of Health and Environmental Control (DHEC) to make needed improvements and repairs over a five year period to the Alpine wastewater plant and collection system. Mr. R. Stanley Jones, as Ni America's President of South Carolina, will discuss the details of the work performed in this regard in his testimony. In summary, we have spent approximately $3.4 million on the improvements and repairs to date on the work in the Alpine system agreed upon in the MOU and have provided documentation to DHEC as to our progress. We have embraced the exemplary environmental quality performance standards set by Mr. Jones for Palmetto Utilities, Inc. and are committed to applying them at PWR. In May of this year, we took steps to improve our operations performance by engaging a new third-party operator, Utility

Partners, Inc., with a larger regional presence, stronger reputation and more experience in the operations of wastewater utilities of the size of the three systems operated by Ni America subsidiaries in South Carolina. It is our continued belief that the foundation of good customer service is communication, which we believe begins with the direct Company to customer communication opportunities we provide in our Town Hall forums. Our commitment to customer service through this type of communication, as well as the addition of facilities, equipment and payment options, is described in detail in the testimony of Company witness Mr. Rick Melcher. In summary, at Ni America, we strive to continue to improve our policies, procedures, and customer service with the goal of becoming the role model for South Carolina privately owned regulated water and wastewater utilities.

Q. THE RATE SCHEDULE PROPOSES CERTAIN LANGUAGE PERTAINING TO THIRD-PARTY OWNED SATELLITE SEWER SYSTEMS; WOULD YOU PLEASE EXPLAIN THE IMPACT THESE SYSTEMS HAVE ON THE INTEGRITY OF THE PWR ALPINE SYSTEM?

A. Yes. Our Alpine collection system is somewhat unique in that it has numerous satellite sewer systems that flow into the Alpine collection system that are not owned by PWR. Even worse, some of these satellite systems represent junction areas between system components that PWR owns and does not own. A primary obligation of PWR is to maintain the integrity of the Alpine system and we are committed to increasing its efficiency and improving the integrity of its collection system. To discharge this

obligation we have undertaken, and are in the middle of, a multi-million dollar program to video, clean, and repair the Alpine collection system. We have learned that a large number of the SSOs experienced by the Alpine system prior to our ownership of it were the result of the lack of maintenance in these satellite systems. Therefore, in order to bring the Alpine collection system into compliance, PWR is required to not only clean, repair, and video the trunk and feeder lines that we own, but to insure that the satellite systems that feed into the Alpine collection system are constructed and maintained to our standards and in accordance with the regulations of the South Carolina Department of Health and Environmental Control. As it relates to the presence of grease in the Alpine system and the occurrence of SSOs throughout the Alpine service area, cleaning and repairing the system that we own loses its benefit if we cannot control the satellite systems that we do not own. Without control of the grease or blockages occurring in these satellite systems, PWR will be forced to clean its own lines again and more frequently than it would otherwise on an ongoing basis. This unnecessary expense will be passed on to customers in rates. Similarly, where a satellite system is not properly constructed and maintained, this results in excessive inflow and infiltration, or "I&I," which leads to increased transportation and treatment costs that are also passed along to customers in rates. Both short-term and long-term solutions are needed to address this problem.

Q. WHAT IS THE COMPANY'S PROPOSAL WITH RESPECT TO THE SATELITE SYSTEMS CONNECTED TO THE ALPINE SYSTEM?

A. As a responsible corporate partner, we are committed to keeping the environment safe for all stakeholders by limiting SSO's in the Alpine service area to the extent possible. As a responsible public utility, we are committed to reducing the costs of maintaining and operating the Alpine system that our customers have to bear. Therefore, in the short term we will continue to clean, repair, and video the satellite systems that feed into our own trunk line when and if we deem it necessary to maintain our system's integrity. We seek to recover in this rate case the costs we have incurred in doing so. To address the issue on a long term basis, we have also requested in this proceeding that the Commission approve language giving PWR the express authority to require owners of satellite systems to either video, clean, and repair their systems to the same regulatory standards we must adhere to as required by DHEC or to reimburse the Company if it undertakes to do the work when the satellite system owners fail to discharge their responsibility. Unfortunately, service termination is not an option in this circumstance due to the fact innocent customers would be adversely affected.

Q. HOW DID PWR ACCOUNT FOR UNDERGROUND COSTS, SUCH AS CLEANING AND VIDEOING THE COLLECTION SYSTEM.

A. The Uniform System of Accounts for Class A Wastewater Utilities as outlined by the National Association of Regulatory Utility Commissioners (NARUC) requires certain costs, including the cleaning and videoing of collection lines, be accounted for as routine maintenance expenses in account 736.2 Contractual Services –Other Collection Expenses - Maintenance. However, because of the circumstances, we accounted for them in a

slightly different manner. Under the MOU, PWR is committed to video, clean, and repair over 172,000 feet of wastewater collection system within a five year period. That commitment represents a financial obligation to perform underground work estimated to cost over $4 million. From a regulatory perspective, those costs do not represent either capital items as prescribed by the NARUC chart of accounts, or period costs that reasonably should be expected to be incurred at the same level past the five year period of the MOU. In lieu of expensing those costs on an annual basis, PWR has elected to capitalize those costs in account 186.2 Regulatory Assets and amortize them over five years. We believe that our accounting treatment is consistent with the position taken by other commissions for similar costs. Further, we believe that the proposed treatment of these costs allows Alpine to recover such costs over a reasonable period without the customer incurring an unreasonable increase in rates.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.