

**STATE OF NORTH CAROLINA  
UTILITIES COMMISSION  
RALEIGH**

DOCKET NO. W-218, SUB 526

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of		
Application by Aqua North Carolina,	)	PUBLIC STAFF'S REPORT ON
Inc., 202 MacKenan Court, Cary,	)	MODIFIED UPIS
North Carolina 27511, for Authority to	)	ACCOUNTING PROCEDURES
Adjust and Increase Rates for Water	)	AND POLICIES OF AQUA
and Sewer Utility Service in All	)	NORTH CAROLINA, INC.
Service Areas in North Carolina	)	

NOW COMES THE PUBLIC STAFF – North Carolina Utilities Commission, by and through its Executive Director, Christopher J. Ayers, and, pursuant to the Commission's Order Approving Change in Accounting Policy issued on March 30, 2021, respectfully submits its report on the modified utility plant in service (UPIS) accounting procedures and policies outlined by Aqua North Carolina, Inc. (Aqua NC or the Company), in its UPIS Policy Review filed January 25, 2021.

**Background**

On October 26, 2020, in the present docket, the Commission issued an Order Approving Partial Settlement Agreement and Stipulation, Deciding Contested Issues, Granting Partial Rate Increase, and Requiring Customer Notice (Rate Case Order). Ordering Paragraph No. 11 of the Rate Case Order directed the Company to review its UPIS accounting procedures and policies for determining when projects are complete, in-service, and booked to plant in-service, and to file its findings and any plans or recommendations to change the procedures and policies within 90 days of the issuance date of the order. The Rate

Case Order also directed Aqua NC to consult and work with the Public Staff regarding its findings and changes to its procedures and policies.

On January 25, 2021, Aqua NC made a filing detailing its review of its accounting procedures and policies and the Company's plans to modify those procedures and policies upon approval by the Commission. Among the modifications discussed was the Company's plan to incorporate into its procedures the Completed Construction but Not Classified (CCNC) functionality provided by PowerPlan to ensure that Allowance for Funds Used During Construction (AFUDC) ends and depreciation begins in a timely manner. The Company stated in its filing that the Public Staff agreed with the proposed modifications.

On March 30, 2021, the Commission issued its Order Approving Change in Accounting Policy in which it authorized Aqua NC to modify its accounting practices to utilize the CCNC functionality provided by PowerPlan, "including converting from its current use of the one half year convention for calculating depreciation expense in the year a project is placed in-service to a monthly protocol for projects placed in-service under the CCNC process." The Commission also directed the Public Staff to review a representative sample of the Company's modified UPIS accounting procedures and policies and report on its findings by January 31, 2022. On January 31, 2022, the Commission issued an order granting the Public Staff an extension of time to March 2, 2022, to file its report.

### **Findings**

On December 13, 2021, the Public Staff sent Aqua NC a data request to obtain information regarding Aqua NC's changes to its accounting process to

utilize CCNC functionality provided by PowerPlan, including converting from Aqua NC's historic use of the one-half year convention for calculating depreciation expense in the year a project is placed in-service to a monthly depreciation protocol for projects placed in-service under the CCNC process. The data request consisted of two questions that asked Aqua NC to provide, for each rate division, a representative sample of (1) ten blanket/routine replacement projects, (2) five non-routine, non-WSIC/SSIC projects, and (3) one WSIC/SSIC project that Aqua NC booked to its accounting records in each of the second, third, and fourth quarters of 2021 and calendar year 2021 utilizing the CCNC functionality and monthly depreciation protocol. In addition, the Public Staff asked Aqua NC to provide detailed documentation in support of the representative sample including general ledgers, journal entries, calculations, depreciation rates and other financial data.

Blanket/Routine Replacement Projects Sample:

Aqua NC was unable to provide a representative sample response to the Public Staff's data request for blanket/routine replacement projects because the work order utilization process did not change with the addition of the CCNC functionality. The Company explained in its response that blanket/routine replacement work orders do not utilize the CCNC process. Rather, blanket/routine replacements post monthly directly to UPIS and start depreciating immediately.

Non-Routine, Non-WSIC/SSIC Project Sample:

Aqua NC's response to the Public Staff's request for non-routine, non-WSIC/SSIC project samples consisted of eighteen specific projects booked to its

accounting records during the second, third, and fourth quarters of 2021 for four of its rate entities. Not all rate entities had enough projects or projects in every quarter to fully comply with the Public Staff's data request. The Company was not able to provide the accumulated depreciation and depreciation expense calculations with working formulas intact or the general ledger supporting monthly depreciation expense and accumulated depreciation for each sample project. Aqua NC stated that the Company uses group depreciation on their books and, therefore, individual asset depreciation calculations were not available.

WSIC/SSIC Project Sample:

Aqua NC's response to the Public Staff's request for a WSIC/SSIC project sample consisted of three specific projects booked to its accounting records during the second and fourth quarters of 2021 for three of its rate entities. Not all rate entities had enough projects or projects in every quarter to fully comply with the Public Staff's data request. As with the non-routine, non-WSIC project samples, Aqua NC was not able to provide the accumulated depreciation and depreciation expense calculations with working formulas intact or the general ledger supporting monthly depreciation expense and accumulated depreciation for each WSIC/SSIC project sample.

**Recommendations**

The Public Staff has completed its current investigation of the CCNC functionality utilized by Aqua NC starting on April 1, 2021, and believes that the Company is properly utilizing this functionality to reflect the ending of AFUDC and the start of depreciation in a timely manner.

The Public Staff was not able to audit the monthly depreciation expense for a specific project due to the Company's use of a group asset method to calculate depreciation expense. When projects were placed in service, they were pulled into a specific utility account bucket based on the nature of the projects. The total cost of the various projects was used as the depreciation basis to calculate the monthly depreciation expense. As a result, the Company was not able to pull a single project depreciation expense. The Public Staff will continue to research, investigate, and audit this issue in the Company's next general rate case to ensure that the CCNC functionality and group depreciation has been properly implemented. This may include specific project calculations to be performed by the Company to reconcile the group depreciation amounts.

Respectfully submitted this the 2nd day of March, 2022.

PUBLIC STAFF  
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Electronically submitted  
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**CERTIFICATE OF SERVICE**

I, Megan Jost, hereby certify that a copy of this Report has been served on all parties of record or their attorneys, or both, by United States mail, first class or better; by hand delivery; or by means of facsimile or electronic delivery upon agreement of the receiving party.

This the 2nd day of March, 2022.

Electronically submitted  
s/ Megan Jost