

**SANFORD LAW OFFICE, PLLC**

Jo Anne Sanford, Attorney at Law

December 29, 2020

**Via Electronic Filing**

Ms. Kimberley A. Campbell, Chief Clerk  
North Carolina Utilities Commission  
4325 Mail Service Center  
Raleigh, North Carolina 27699-4325

Re: Aqua North Carolina, Inc.  
Docket No. W-218, Sub 526  
Updated Policy Regarding Allowance for Funds Used During  
Construction

Dear Ms. Campbell:

Aqua North Carolina, Inc. (“Aqua” or “Company”) hereby files the Company’s updated Allowance for Funds Used During Construction (“AFUDC”) policy required by Decretal Paragraph No. 10 of the Commission’s October 26, 2020 Rate Case Order entered in Docket No. W-218, Sub 526.

I hereby certify that this filing has been provided today to each of the parties of record by means of electronic service.

As always, thank you and your staff for your assistance; please feel free to contact me if there are any questions or suggestions.

Sincerely,

**Electronically Submitted**

/s/Jo Anne Sanford  
Sanford Law Office, PLLC  
State Bar No. 6831

Attorney for Aqua North Carolina, Inc.

c: Parties of Record



# ACCOUNTING POLICY AND PROCEDURE STATEMENT

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**TOPIC:** AFUDC

**RESPONSIBILITY:** North Carolina Finance Department

**PURPOSE:**

Detail Aqua North Carolina, Inc.'s (the Company) policy and procedures regarding Allowance for Funds Used During Construction (AFUDC), including calculation of the AFUDC rate, determination of eligible and qualifying projects, and preparation of related journal entries and reporting.

**POLICY:**

It is the policy of the Company to calculate AFUDC in order to reflect financing costs incurred during the construction cycle of qualified and eligible projects. The principle behind the accounting entry is that financing costs incurred during the construction process are a necessary capital cost of the project and are recoverable.

There are two components to AFUDC: debt and equity. The debt portion represents capitalization of interest expenses incurred to finance utility asset construction projects during their construction phase. The equity portion represents a rate of return for equity funds used to finance utility asset construction projects during their construction phase.

The authorized equity rate used to calculate AFUDC is a pre-tax rate; therefore, a tax gross up amount is included in the equity component of the AFUDC calculation and recorded to a regulatory asset account in accordance with FASB ASC 740 (formerly FAS 109). In-Service AFUDC Equity balances are amortized at a composite rate in another regulatory asset account.

AFUDC is calculated each month within the PowerPlan software utilized by the Company.

It is the policy of the Company to maintain proper internal controls over the calculation and approval process for AFUDC in order to provide reasonable assurance that transactions are recorded fairly and accurately. Specific policies are as follows:

- 1) AFUDC shall be applied to Construction Work in Progress (CWIP) balances for Water and Wastewater accounts. Utility Plant Held for Future Use (UPHFFU), developer CWIP, and Preliminary Survey (PRE-SURV) accounts are deemed ineligible.
- 2) The AFUDC rate is derived using the Weighted Average Cost of Capital (WACC) method. WACC cost rates for the components in the capital structure are as follows:
  - a. The Equity Cost Rate used will be the rate approved by the Commission in the last rate case.
  - b. The Debt Cost Rate used will be the actual cost of long-term and short-term debt at the end of the period of update.
  - c. WACC will be adjusted to reflect the pre-tax cost of capital using a gross-up factor for both Federal and State Tax in accordance with FASB ASC 740.



- 3) The AFUDC rate is to be reviewed by the Controller annually and updated in PowerPlan as material changes occur.
- 4) A project is eligible for AFUDC if it has a current balance in CWIP of \$2,000 or greater and a project period that exceeds 30 days.
- 5) AFUDC is calculated in PowerPlan and recorded as part of the month-end close process.
- 6) PowerPlan calculates AFUDC using the AFUDC base for each project. The AFUDC base is a project's prior month ending CWIP balance plus half of its current month charges.
- 7) AFUDC is calculated on CWIP balances for eligible projects starting from the period when project charges exceed \$2,000/30 days and ends when the project is placed in-service.