

**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, Inc.,	)	ORDER ACCEPTING
202 MacKenan Court, Cary, North Carolina	)	MEMORANDUM OF
27511, for Authority to Adjust and Increase	)	UNDERSTANDING
Rates for Water and Sewer Utility Service in	)	CONCERNING NON-REVENUE
All Service Areas in North Carolina	)	PURCHASED WATER

BY THE COMMISSION: On October 26, 2020, in the above-captioned docket (Sub 526) the Commission issued an Order Approving Partial Settlement Agreement and Stipulation, Deciding Contested Issues, Granting Partial Rate Increase, and Requiring Customer Notice (Rate Order). Pursuant to Ordering Paragraph No. 16 of the Rate Order, the Commission directed Aqua North Carolina, Inc. (Aqua NC or the Company), and the Public Staff to develop a mutually agreeable purchased water loss standard based upon the methodology for purchased water systems set forth in Aqua NC witnesses Pearce's and Kunkel's rebuttal testimony for implementation in the Company's next general rate case and to report to the Commission on their progress within nine months of the Rate Order.

On May 25, 2021, Aqua NC and the Public Staff (the Parties) entered into a Memorandum of Understanding (MOU), which they filed on May 26, 2021, and requested the Commission to accept in compliance with the requirement set forth in Ordering Paragraph No. 16 of the Rate Order. In the filing the Parties stated that pursuant to the Commission's directive, they have arrived at a mutually agreeable approach to developing a purchased water loss standard and methodology for determining an allowable amount of purchased water loss adjustment to the purchased water expense.

In the MOU the Parties propose an appropriate amount of allowable purchased water loss to be used on an interim basis in the Company's next two general rate case proceedings as the Parties work toward development of a mutually agreeable purchased water loss standard based on the methodology set forth in Aqua NC witnesses Pearce's and Kunkel's Sub 526 rate case rebuttal testimony.

The MOU explains that the Partial Settlement Agreement and Stipulation (Stipulation) between Aqua NC and the Public Staff filed on July 1, 2020, in Sub 526 was cited in the Rate Order. The MOU further recounts that in Section III, Paragraph HHH of the Stipulation the Parties agree to: (1) utilize a 15% adjustment for allowable purchased water loss in the Sub 526 case; (2) work toward the development of a mutually agreeable standard based upon the methodology for purchased water systems set forth in Aqua NC witnesses Pearce's and Kunkel's rebuttal testimony for implementation in Aqua NC's next

general rate case; and (3) report on the progress of those discussions in the next rate case. Quoting from the Rate Order, the MOU further notes that “the Commission does expect Aqua NC and the Public Staff to come to a consensus recommendation for how purchased water loss will be reflected in Aqua NC’s next general rate case proceeding.” Rate Order at 62.

The MOU points out that Aqua NC’s initial rate case application filed in Sub 526 did not include any adjustment to purchased water expense for water losses. Public Staff witness Darden recommended disallowance of purchased water expense for water loss that exceeded 15% of the Company’s purchased water on a per supplier basis. Restated, the Public Staff recommended that recoverable purchased water expense not include cost in excess of 15%, on a per-supplier basis, of all lost, unaccounted for, or non-revenue producing purchased water. In rebuttal testimony Aqua NC witnesses Pearce and Kunkel testified that the 15% gross water loss standard recommended by witness Darden is not an appropriate standard and, in some instances, incentivizes a utility to spend in excess of the cost of the water in order to detect and resolve water loss issues. Furthermore, witnesses Pearce and Kunkel recommended that Aqua NC be allowed to complete American Water Works Association (AWWA) M36 Water Audits and use performance indicators to focus on the systems that are performing more poorly and suspend the disallowance of actual purchased water costs incurred.

The Parties report in the MOU that in acknowledgement of the Commission’s Rate Order, including its findings, evidence and conclusions, and ordering paragraphs, the Public Staff and Aqua NC engaged in discussions regarding water loss, best practices, Company-specific operations, AWWA guidance, the M36 Water Audits and Loss Control Programs methodology, and the Sub 526 rate case. According to the MOU, the following topics and considerations were discussed:

- (1) The simplicity and efficiency of a percent purchased water loss standard, calculated as  $\text{percentage water loss} = ([\text{gallons of water purchased} - \text{gallons of water sold}] / \text{gallons of water purchased}) \times 100\%$ .
- (2) The value of monitoring percentage water loss on a rolling annual average basis.
- (3) The additional information considered as part of the M36 Water Audit and the application of its results.
- (4) The challenges of comparing the results of M36 Water Audits and the associated performance indicators for Aqua NC’s relatively small, purchased water systems, both in number of connections and size of infrastructure, to those of other, mostly substantially larger public water utilities, such as those in California and Georgia referenced in the rebuttal testimony of witness Kunkel.

As outlined in the MOU, the Parties agree that the development of a purchased water loss standard based on the methodology set forth in Aqua NC witnesses Pearce’s

and Kunkel's rebuttal testimony will require data that is not currently available and will take additional time to compile and review. Accordingly, the Parties agree that a purchased water loss standard of 20% is a reasonable and appropriate interim standard for use in each of Aqua NC's next two general rate case proceedings. It is specified in the MOU that this standard will be applied to each water system that is supplied solely by purchased water from a third-party provider. Therefore, according to the MOU, the purchased water expense will not include any cost for any amount of water "lost" or unaccounted for (determined by the difference between total amount purchased by the Company and the total amount billed to customers) in excess of 20% on a system basis.

Further, the MOU states that the Parties agree that in recognition of the importance of proper operation and oversight and the Company's commitment to water conservation and cost conscientiousness, Aqua NC will conduct internal annual calendar year M36 Water Audits of its purchased water systems experiencing greater than 15% water loss, "thus providing an action item to prompt an investigation into the possible causes and fixes for increasing water loss."

The Parties assert that the MOU is intended to result in regulatory certainty, reduced rate case expense, and administrative efficiency during the two-rate case interim period, as it will reduce the amount of time and investigation required to review Aqua NC's purchased water expenses and calculate the associated adjustments. The Parties agree that using an interim term of two general rate case proceedings provides an appropriate and reasonable amount of time to further investigate the determination and applicability of key performance indicators that are a result of the M36 Water Audit and the standards against which to measure them. The Parties state in the MOU that they intend to develop a mutually agreeable water loss standard based on the M36 Water Audits for use in subsequent rate cases.

The MOU further specifies that Aqua NC anticipates that the internal M36 Water Audits for calendar year 2020 will be completed by May 31, 2021, and that Aqua NC will provide the results of those audits and the Company's analysis of the results to the Public Staff no later than July 15, 2021. The Parties state in the MOU that they will file a progress report on the development of a mutually agreeable water loss standard based on the audits no later than August 31, 2021, and every six months thereafter until the expiration of the two-rate case interim period.

## **CONCLUSIONS**

After careful review and consideration of the MOU filed by the Parties, the Commission concludes that it is appropriate to accept the MOU as being in compliance with the requirement set forth in Ordering Paragraph No. 16 of the Rate Order. The Commission acknowledges the Parties' agreed-upon determination that the development of a purchased water loss standard based on the methodology set forth in Aqua NC witnesses Pearce's and Kunkel's rebuttal testimony for implementation in Aqua NC's next general rate case will require data that is not currently available and will take additional time to compile and review. The Commission notes that at the time of filing of the MOU, Aqua NC anticipated that the internal M36 Water Audits for calendar year 2020 for

systems exceeding 15% water loss would be completed by May 31, 2021, and indicated it would provide the results of those audits and the Company's analysis of those results to the Public Staff no later than July 15, 2021. Moreover, the MOU states that the Parties will file with the Commission a progress report on the development of a mutually agreeable water loss standard based on the M36 Water Audits no later than August 31, 2021, with such reporting continuing every six months thereafter until the expiration of the two-rate case interim period. Consequently, recognizing that the Parties are making progress on the Commission's directive set forth in Ordering Paragraph No. 16 of the Rate Order and that the MOU requires the filing of further progress reports concerning implementation of a mutually agreeable purchased water loss standard, the Commission finds that the MOU appropriately addresses the Commission's directive.

Notwithstanding accepting the progress of the Parties as documented by the MOU as compliance with the Rate Order, the Commission is neither approving nor denying any of the stated provisions in the MOU, such as use of the consensus recommendation of a 20% purchased water loss standard on an interim basis for Aqua NC's next two general rate case proceedings. Rather, the Commission will review such matters in the context of each general rate case proceeding and will in each case determine whether the Parties' agreed-upon interim standard is supported by the evidence and results in rates that are just and reasonable pursuant to N.C. Gen. Stat. §§ 62-131(a) and 62-133(a).

Additionally, the Commission determines that the term "non-revenue purchased water" is a clearer, more accurate description of the difference between total purchase water expense and the total water usage billed to customers than the term "water loss." "Non-revenue purchased water" is consistent with current industry terminology, and as noted by the AWWA, "is specifically defined to include the sum of specific types of water loss and any authorized, unbilled consumption that occurs within water distribution systems." Therefore, the Commission will no longer use the term "water loss" in the context of determining recoverable purchased water expense; instead, going forward, "non-revenue purchased water" should be used to refer to the difference between total water purchased and total water billed to customers.

Finally, the Commission understands the Parties' mutual agreement that data supporting development of a standard based on the Company's rebuttal testimony is not currently available and that an interim standard is needed for the period of time during which such data will be obtained and analyzed. However, the Commission is concerned about the Parties' defining the time period to acquire the necessary data as two rate cases rather than as the actual time that it will take to acquire and analyze the data. A period of two rate cases is vague and uncertain because the timing of rate cases is generally within the Company's control or discretion, i.e., there is no date certain when rate cases must be filed. Thus, the Commission directs the Parties to provide in their first report regarding non-revenue purchased water, to be filed no later than August 31, 2021, information explaining their rationale and basis for selecting a two-rate case period for application of the 20% interim non-revenue purchased water standard as opposed to a more definite time and to explain further why the interim standard would necessarily need to be applied to more than one future rate case. If there is good and sufficient reason for the two-rate case interim standard, the report should also discuss assurances that the actual time

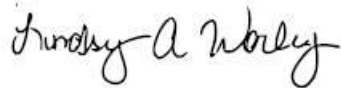
before applying a non-revenue purchased water standard based on actual data in the third future rate case will not be unreasonably vague and indefinite. The Parties are also directed to include in their August 31, 2021 report a specific date or actual timeframe by which they anticipate reaching a final mutually agreeable non-revenue purchased water standard based on the methodology set forth in Aqua NC witnesses Pearce's and Kunkel's rebuttal testimony in the last general rate case.

IT IS, THEREFORE, SO ORDERED.

ISSUED BY ORDER OF THE COMMISSION.

This the 27th day of July, 2021.

NORTH CAROLINA UTILITIES COMMISSION

A handwritten signature in black ink, appearing to read "Lindsey A. Worley".

Lindsey A. Worley, Acting Deputy Clerk

Commissioner Daniel G. Clodfelter concurs.

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**Commissioner Daniel G. Clodfelter, concurring:**

I am in accord with the Commission's determination that the Memorandum of Understanding filed on May 26, 2021, complies with the reporting requirement in Paragraph 16 of the Commission's Order filed October 26, 2020, in Docket No, W-218, Sub 526 (the Aqua Rate Case Order) and am in further agreement with the Commission's decision to waive, in the exercise of its discretion and for the reasons set forth in the Commission's present order, the requirement in Paragraph 16 of that of the Aqua Rate Case Order that the Company and the Public Staff present an agreed upon standard for a non-revenue water allowance in the Company's next general rate case. In the present order the Commission states that it is "neither approving nor denying" the parties' proposal to use a 20% maximum non-revenue water allowance in the Company's next two general rate case and that the appropriateness of this proposed interim 20% maximum allowance will be decided based upon the evidence presented in those case. I support this statement so far as it goes, but I would go further. In the Aqua Rate Case Order the Commission determined that a 15% maximum allowance for non-revenue water was appropriate and would result in just and reasonable rates. Unless and until probative evidence is provided otherwise to support some different standard or different methodology, I would continue to adhere to the 15% maximum allowance in future general rate cases.

/s/ Daniel G. Clodfelter  
Commissioner Daniel G. Clodfelter