

**SANFORD LAW OFFICE, PLLC**

Jo Anne Sanford, Attorney at Law

May 7, 2021

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

**Via Electronic Filing**

Re: Aqua North Carolina, Inc.  
Docket No. W-218, Sub 526A  
Verified Response to Initial Comments of the Public Staff

Dear Ms. Campbell:

Aqua North Carolina, Inc. hereby files the attached Verified Response to Initial Comments of the Public Staff which were filed in Docket No. W-218, Sub 526A on April 19, 2021.

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**  
Attorney for Aqua North Carolina, Inc.

cc: Parties of Record

**STATE OF NORTH CAROLINA  
UTILITIES COMMISSION  
RALEIGH**

DOCKET NO. W-218, SUB 526A

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of		
Application by Aqua North Carolina, Inc.,	)	
202 MacKenan Court, Cary, North	)	VERIFIED RESPONSE TO
Carolina 27511, for Authority to Adjust	)	INITIAL COMMENTS OF
and Increase Rates for Water and Sewer	)	THE PUBLIC STAFF
Utility Service in All Its Service Areas in	)	
North Carolina	)	

**NOW COMES Aqua North Carolina, Inc.** (Aqua or Company), represented by the undersigned counsel, to file this Verified Response<sup>1</sup> to counter the Public Staff's Initial Comments in this docket, filed on April 19, 2021 (Initial Comments). Those Initial Comments address the Ongoing Three-Year WSIC/SSIC Plan<sup>2</sup> filed by the Company in the Sub 526A docket on March 1, 2021.

Aqua disputes certain portions of the Public Staff's Initial Comments, for the reasons set forth below.

### Background

The Public Staff begins its Initial Comments by quoting certain excerpts from the Commission's<sup>3</sup> December 17, 2020 Order in a WSIC/SSIC surcharge case filed by Carolina Water Service, Inc. of North Carolina (CWSNC) in Docket No. W-354, Sub 364A. Those portions of the Commission's CWSNC

---

<sup>1</sup> The information contained in this Response has been verified by Aqua North Carolina President Shannon V. Becker and Joseph R. Pearce, Aqua's Director of Operations.

<sup>2</sup> WSIC is the acronym for Water System Improvement Charge and SSIC is the acronym for Sewer System Improvement Charge, a surcharge adjustment mechanism authorized by G.S. 62-133.12 and Commission Rules R7-39 and R10-26.

<sup>3</sup> The Commission will also sometimes be hereinafter referred to as NCUC.

WSIC/SSIC Surcharge Order are accurately quoted; however, Aqua submits that additional language from that Order (not quoted by the Public Staff) is relevant. That additional language supports Aqua's position that the Commission should accept and recognize the validity of the Three-Year WSIC/SSIC Plan filed by the Company on March 1, 2021.

For instance, on page 2 of its Initial Comments, the Public Staff set forth the following quote from the CWSNC Sub 364A WSIC/SSIC Order:

...

Hence, the current WSIC/SSIC rules requiring the filing of a three-year plan provide the Public Staff with advance notice of the types of improvements, corresponding dollar amounts, and the timing of the improvements prior to the inclusion of such improvements in a WSIC/SSIC surcharge application.

...

However, the full paragraph in question includes the following additional, highlighted language (at page 8 of the CWSNC Sub 364A WSIC/SSIC Order):

Hence, the current WSIC/SSIC rules requiring the filing of a three-year plan provide the Public Staff with advance notice of the types of improvements, corresponding dollar amounts, and the timing of the improvements prior to the inclusion of such improvements in a WSIC/SSIC surcharge application. **Additionally, the rules allow the Public Staff time to conduct a thorough review of the documentation provided in support of a recovery request. Further, the quarterly reports required pursuant to Commission Rules R7-39(n) and R10-26(n) include a Construction Status Report, which provides the Public Staff detailed information regarding WSIC/SSIC improvements that may potentially result in a future request for surcharge recovery.** (Emphasis added)

The significance of the highlighted language set forth above is two-fold.

First, the Commission specifically recognized that the WSIC/SSIC Rules allow

sufficient time for the Public Staff to conduct a thorough review of a utility's application for WSIC/SSIC surcharge cost recovery. In this case, that utility is Aqua. Second, the Commission specifically recognized that the NCUC-required Quarterly Construction Status Reports, filed by utilities, provide the Public Staff with detailed information regarding WSIC/SSIC improvements that may potentially result in a future request for surcharge recovery. By the above-quoted language, the Commission recognized that the Quarterly Construction Status Reports are, in effect and by design, a source of information---in addition to the utility's WSIC/SSIC Three-Year Plan---which provides the Public Staff with advance notice of future eligible WSIC/SSIC improvements which will be reflected in upcoming surcharge applications.

G.S. 62-133.12, the WSIC/SSIC statute, became law in North Carolina on June 12, 2013. The WSIC/SSIC Rules (R7-39 for Water and R10-26 for Sewer) which implement the statute were adopted by Commission Order dated June 6, 2014, in Docket No. W-100, Sub 54. These Rules required utilities, such as Aqua, with a Commission-approved WSIC/SSIC surcharge adjustment mechanism, to file Ongoing WSIC/SSIC Three-Year Plans, updated on an annual basis. Utilities like Aqua are also required by the WSIC/SSIC Rules [Subsection (n) of each Rule] to file certain Quarterly Reports with the Commission, including a Construction Status Report, which includes by rate division the following information for each active<sup>4</sup> eligible water and sewer system improvement project:

---

<sup>4</sup> To clarify, stalled or inactive projects may be removed from the Quarterly Reports even though they may have had historic spend and are carrying a balance. However, once an inactive project is reactivated, it will once again be included in the Quarterly Reports.

- a. The costs incurred during the quarter;
- b. The cumulative amount incurred;
- c. The estimated total cost for each project;
- d. The estimated completion date; and
- e. The actual completion date.

Aqua filed a general rate case in Docket No. W-218, Sub 363 on August 2, 2013. As part of that filing, the Company requested authorization, pursuant to G.S. 62-133.12, to implement a WSIC/SSIC mechanism designed to recover, between rate cases, the costs associated with investments in certain completed, eligible system improvement projects. The Company Included, as part of its rate case filing, a proposed Three-Year WSIC/SSIC Plan for approval by the Commission. In its Sub 363 Rate Case Order, issued on May 2, 2014, the Commission found and concluded that the Company's request for approval of a WSIC/SSIC mechanism in the context of that proceeding should be approved.

On May 27, 2014, Aqua filed its first Quarterly Earnings Report in Docket No. W-218, Sub 363A. After having received an extension of time, Aqua filed its first Quarterly WSIC/SSIC Construction Status Report on August 8, 2014, addressing the calendar quarter ended March 31, 2014. The Company has subsequently filed the Commission-required WSIC/SSIC Quarterly Earnings, Revenues, and Construction Status Reports for calendar years 2014 – 2020. Most recently, those Reports were filed on February 12, 2021, for the calendar quarter ended December 31, 2020. Aqua's next WSIC/SSIC Quarterly Reports will be filed on or before Friday, May 14, 2021, for the calendar quarter ending March 31, 2021.

Aqua filed its first application for approval of WSIC/SSIC surcharge rate adjustments in Docket No. W-218, Sub 363A on October 31, 2014. By Order dated December 22, 2014, the Commission authorized the Company to implement the WSIC and SSIC rate adjustments recommended by the Public Staff on a provisional basis, effective for service rendered on and after January 1, 2015. After having been granted an extension of time, Aqua filed its first Ongoing Three-Year WSIC/SSIC Plan on April 30, 2015. As required by the WSIC/SSIC Rules, Aqua has subsequently filed six additional annual updates or Ongoing Three-Year Plans with the Commission---most recently on March 1, 2021, in Docket No. W-218, Sub 526A

The point of this historical detail is to point out to the Commission that, to the best recollection of Company personnel, prior to the Public Staff's recent filing taking issue with certain aspects of Aqua's current Ongoing Three-Year WSIC/SSIC Plan, the Company had never previously received indication from the Staff that it was dissatisfied with the details, content, and format of the **seven** WSIC/SSIC Three-Year Plans previously filed with the Commission over a period of **eight** years. Likewise, to the best of its recollection, Aqua has received no criticism from the Public Staff as to any alleged deficiency affecting the information provided by the Company in any of the Quarterly WSIC/SSIC Construction Status Reports filed over the past **seven** years.

Given the apparent lack of feedback expressing dissatisfaction regarding any of the Company's prior Ongoing WSIC/SSIC Three-Year Plans or Quarterly Construction Status Reports---prior to the Public Staff's April 19, 2021 filing---Aqua

is perplexed by the Staff's recent comments.<sup>5</sup> As anticipated by the Commission in the W-100, Sub 54 WSIC/SSIC Rulemaking Order (and as quoted by the Commission in the CWSNC Sub 364A Order), the Public Staff has had the opportunity and duty to scrutinize and review all of the Ongoing Three-Year Plans and Quarterly Construction Status Reports filed by the Company over many years. This included the opportunity to discuss those Plans and Reports with Aqua between the Company's rate cases (i.e., the Sub 363, 344, 497, and 526 rate cases) if the Staff was in any way dissatisfied with the information being provided in those Plans and Reports or the format thereof.

Aqua welcomes discussion of any issues the Public Staff would like to address and suggests that discussion of concerns prior to regulatory filings is a more productive and efficient approach, as the two parties have demonstrated repeatedly in other areas.

Aqua now turns to the concerns expressed by the Public Staff. The Public Staff specifically cites "...the **direction** provided by the Commission in the CWSNC WSIC/SSIC Order regarding the Commission's expectations for the operation of the WSIC/SSIC procedure..." as the basis for the Staff's current "...scrutiny and review of the ongoing three-year plan..."<sup>6</sup> (Emphasis added) This direction to review and scrutinize Aqua's Ongoing Three-Year Plan is not new. It first emanated from the Commission's Sub 363 Rate Case Order and the

---

<sup>5</sup> The April 19, 2021 Initial Comments filed by the Public Staff pertain only to the Company's most recent Ongoing Three-Year WSIC/SSIC Plan filed on March 1, 2021. They do not address or express any deficiencies or criticisms with regard to the Company's Quarterly Construction Status Reports.

<sup>6</sup> Public Staff Initial Comments at page 3.

W-100, Sub 54 Rulemaking Order, both of which were issued in mid-2014--- approximately seven years ago. Yet, to the best recollection of Company personnel, this is the first time that the Public Staff has alleged substantive problems with any of the Company's WSIC/SSIC Three-Year Plans. Aqua is also unaware of the Public Staff having been concerned about the Company's Quarterly Construction Status Reports, to which the longstanding obligation for the Staff to review and scrutinize also applies.

Based on this background, Aqua defends the validity of its WSIC/SSIC practices and procedures and the Three-Year Plans and Quarterly Construction Status Reports filed by the Company.

### **Responses to Specific Issues**

At page 3 of its Initial Comments, the Public Staff stated that it reviewed and scrutinized Aqua's Ongoing Three-Year Plan, as directed by the Commission in the CWSNC WSIC/SSIC Order, and determined that the contents of the Plan changed as compared to the Plans previously filed by the Company. The Public Staff further determined that the Company's current Ongoing Three-Year Plan lacks information that should be made publicly available to the Commission, the Public Staff, and Aqua's customers.

### **Budget Markers**

In Paragraph 7 at pages 4 - 5 of its Initial Comments, the Public Staff made the following criticisms of Aqua's current WSIC/SSIC Three-Year Plan:

In a departure from all of its previous three-year plans, Aqua included numerous line items for budget markers in its most recently

filed WSIC/SSIC Plan.<sup>7</sup> These budget markers are generic dollar amounts that lack detailed information concerning eligible system improvement projects. The budget markers are a significant factor contributing to the increased overall amount of planned investment, including, in 2021, \$1.75 million for primary treatment projects, \$0.275 million for mains, valves, services, meters, and hydrants replacements, and \$0.2 million for pumps, motors, blowers, and other mechanical equipment. During the 2021-2023 period, budget markers total \$9.149 million, or over 18% of Aqua's WSIC/SSIC Plan. It is the Public Staff's opinion that budget marker line items should be removed or, in the alternative, that their use should be limited to future years. As stated in the CWSNC WSIC/SSIC Order, "a three-year plan [shall] provide the Public Staff with advance notice of the types of improvements, corresponding dollar amounts, and the timing of the improvements prior to the inclusion of such improvements in a WSIC/SSIC surcharge application" and "the Commission expects the utilities to apprise the Public Staff of any deviations between the eligible improvements included in its WSIC/SSIC application and the eligible improvements presented in its latest three- three-year plan on file with the Commission." Id. In either scenario, due to the lack of detail regarding these budget markers, when specific eligible projects occur and are included in a WSIC/SSIC application, the utilities should apprise the Public Staff of this deviation, or development.

### **Aqua's Response Regarding Budget Markers**

In its Footnote 2 on page 4, the Public Staff admitted that Aqua has previously used budget markers in its Three-Year Plans for certain items, such as SSIC eligible replacements of pumps, motors, and blowers in future years. To the best recollection of Aqua personnel, the Company is unaware of prior objections to the use of budget markers.

More specifically, the Public Staff's Initial Comments focus on its conclusion that budget markers are a significant factor contributing to the increased overall

---

<sup>7</sup> Previously, budget markers were used on a limited basis for higher frequency, lower individual cost project types such as SSIC eligible replacements of pumps, motors, and blowers in future years. [Note: This footnote (designated by the Public Staff as footnote 2) was part of the Public Staff's Initial Comments regarding Paragraph 7 thereof].

amount of planned investment, including, in 2021: \$1.75 million for primary treatment projects; \$0.275 million for mains, valves, services, meters, and hydrants replacements; and \$0.2 million for pumps, motors, blowers, and other mechanical equipment. The Public Staff further asserts that during the 2021-2023 period, budget markers total \$9.149 million, or over 18% of Aqua's WSIC/SSIC Plan.

Aqua has previously used estimates and placeholders (budget markers) in its Three-Year Plans for certain WSIC/SSIC eligible projects and project types where specific information and details are not yet available, in view of the fact that system-specific details and costs may not be known at the time of development and drafting of the Company's Ongoing Three-Year Plan. Aqua's inability to specifically identify such system improvements at that time does not and should not make them ineligible for cost recovery in a WSIC/SSIC surcharge proceeding.

Aqua encourages the Commission to make its own independent review and evaluation of the Company's use of budget markers in the current Ongoing WSIC/SSIC Three-Year Plan. Aqua believes and asserts that this practice is reasonable, limited in scope, and necessary for the Company to efficiently run its business. It also provides sufficient information in the Company's Three-Year Plan (particularly in combination with other modes of reporting, such as ongoing discussions, Quarterly Construction Status Reports, prior filings concerning meters, etc.) to allow the Public Staff to meet the Commission's direction to review and scrutinize WSIC/SSIC investments, including those denominated by budget markers.

Some examples will serve to illustrate the reasonableness of the Company's position and the unreasonableness of the Public Staff's general opposition to the use of budget markers. The Public Staff cites and objects to the Company's use of budget markers in the amount of \$1.75 million for primary treatment projects during calendar year 2021. But that is only part of the story. Exhibit 4 of Aqua's current Three-Year Plan entitled "Primary Contaminant Treatment Projects by Rate Entity" lists **seven** specific projects across the Company's three Water Rate Divisions for 2021, at a total investment of \$1.49 million, which is in addition to the budget marker amount of \$1.75 million. Aqua has identified seven primary projects with specificity, but, through experience, knows that additional primary water quality issues will arise and eligible projects may be required to address those issues during 2021. For that reason, the Company has inserted 2021 budget markers for this category in order to put the Commission and the Public Staff on notice that additional, potentially eligible projects may be required and to satisfy, as much as reasonably possible, the Commission's expectations regarding reasonable specificity.

Where specific projects are known and planned, Aqua makes every effort to include them in the Company's Ongoing Three-Year Plan. The specific activities considered to be eligible and their related costs are included in the Company's Quarterly Construction Status Reports as they progress, thereby providing additional notice and information to the Public Staff. Where specific primary water quality projects are not yet known or planned, experience tells Aqua that instances requiring unforeseen projects are likely to arise; thus, the need for reasonable use

of budget markers. Furthermore, one consideration not mentioned by the Public Staff is that if additional projects covered by these budget markers do not materialize, there will be no impact on WSIC/SSIC cost recovery by the Company and no impact on the rates paid by consumers – resulting in “no harm, no foul”.<sup>8</sup>

The only harm that can occur would be to the Company if it is not allowed to include budget markers in its WSIC/SSIC Plan to protect its ability to recover such unforeseen capital investments through the WSIC/SSIC surcharge mechanism, simply because they could not be included with the unnecessary specificity now requested by the Public Staff. The relevance and benefit of having the heightened level of detail being requested by the Public Staff for a projection, whether in year 1 or year 3, is limited, if not irrelevant, to ultimately determining the eligibility for recovery under the WSIC/SSIC mechanism.

A similar analysis of the other two classifications of WSIC/SSIC eligible projects addressed by the Public Staff on page 5 of its comments regarding budget markers,<sup>9</sup> leads to the same conclusions as set forth above concerning primary water quality treatment projects. For the WSIC category of in-kind replacements of mains, valves, services, meters, and hydrants, the Company estimated total capital investments during 2021 of approximately \$6.927 million, including an estimated budget marker of \$275,000. For the SSIC category of in-kind replacements of pumps, motors, blowers, and other mechanical equipment, the

---

<sup>8</sup> This comment also applies to the Public Staff’s statement at page 5 of its Initial Comments that “During the 2021-2023 period, budget markers total \$9.149 million, or over 18% of Aqua’s WSIC/SSIC Plan.”

<sup>9</sup> WSIC in-kind replacements of mains, valves, services, meters, and hydrants and SSIC in-kind replacements of pumps, motors, blowers, and other mechanical equipment.

Company estimated total capital investments during 2021 of approximately \$1.538 million, including an estimated, budget marker of \$200,000. Both of these categories of capital investments consist almost exclusively of specific, planned projects which are clearly eligible for WSIC/SSIC cost recovery. Budget markers are the exception rather than the rule; however, they are absolutely necessary to address unforeseen issues that must be anticipated by Aqua in order to provide its customers with adequate, efficient and reasonable service as required by G.S. 62-131(b).

Aqua requests that the Commission authorize the use of budget markers in the Company's current Ongoing Three-Year Plan as well as future Plans and deny the specific relief requested by the Public Staff; i.e., that budget marker line items be removed or, in the alternative, that their use be limited to future years.

#### **WSIC Meter Exchange Project**

In Paragraph 8 of its Initial Comments, the Public Staff stated that in its WSIC/SSIC Plan, Aqua added a line item for WSIC Meter Exchange Project in the ANC Water rate division for amounts of \$4,157,400 in 2021, \$1,425,400 in 2022, and \$1,169,300 in 2023, respectively. No additional information was provided, and this line item was not included in Aqua's prior WSIC/SSIC Plan filed on March 2, 2020. Neither this investment, nor the magnitude of its cost, was forecasted by Aqua in its previous three-year plans or during its most recent general rate case.

### **Aqua's Response Regarding WSIC Meter Exchange Project**

The Public Staff here raises an issue regarding Aqua's inclusion, for the first time, of a line item in its March 1, 2021 Ongoing WSIC/SSIC Three-Year Plan for the Company's WSIC Meter Exchange Project in the ANC Water Rate Division.

Aqua's response to the Public Staff's Initial Comments regarding the Company's Meter Exchange Project follows.

First, the Commission, by Order entered on December 18, 2018, in the Company's contested Sub 497 general rate case, concluded that it was a better long-term decision for both Aqua and its customers to update to the newer AMR technology in conjunction with the Company's normal aged meter replacement program; that the decision to implement AMR technology was reasonable and prudent; that the functionalities of AMR technology installed by Aqua are currently being utilized to the benefit of the ratepayers and will incrementally increase benefits to customers in the long-term as the AMR technology is fully deployed; and that it was, therefore, appropriate to include Aqua's investment in AMR technology in rates in that proceeding.

Second, it is true that the Company included, for the first time, a line item in its current Ongoing WSIC/SSIC Three-Year Plan for its WSIC Meter Exchange Project. However, it is also true that was entirely a change or addition which should have been expected. The Commission endorsed Aqua's use of AMR technology as part of the Company's normal aged meter replacement program, which should logically have signaled all to expect that Aqua would continue installing AMR water meters during the course of carrying out its aged meter replacement project.

Third, the Company subsequently filed an Application for Approval of Water and Sewer System Rate Adjustments Pursuant to G.S. 62-133.12 in Docket No. W-218, Sub 497A on April 30, 2020. By that Application, Aqua requested approval of WSIC surcharges allowing recovery of costs related to the Company's WSIC Meter Exchange Project for AMR water meters installed in both the Company's Uniform Water and Brookwood and LaGrange Water Rate Divisions. Aqua's investment in AMR meters installed pursuant to the Company's aged meter replacement program totaled approximately \$305,000 in the Uniform Rate Division<sup>10</sup> and approximately \$1.28 million in the Brookwood/LaGrange Rate Division.<sup>11</sup> This Application squarely put the Public Staff on notice that the Company was continuing to implement its aged meter replacement program through the installation of AMR water meters. Although Aqua withdrew the April 30, 2020 WSIC/SSIC Surcharge Application by Notice filed on May 8, 2020, the capital costs of those AMR meters were in fact ultimately included in the Company's rates pursuant to the Commission's Sub 497 Rate Case Order, entered on December 18, 2018, without any opposition having been expressed by the Public Staff to that cost recovery.

Fourth, Aqua's current Ongoing WSIC/SSIC Three-Year Plan, which was filed in the Sub 526A docket on March 1, 2021, contains a line item for the Company's Meter Exchange Project indicating that the Company plans to install replacement meters in its Uniform Water Rate Division during 2021, at a capital

---

<sup>10</sup> This capital investment covered the installation of 817 AMR meters in three subdivisions in Fayetteville in the Uniform Water Rate Division.

<sup>11</sup> This capital investment covered the installation of 5,138 AMR meters in 29 water systems in the Brookwood Water Rate Division.

investment totaling \$4,157,400. This is ample notice to the Public Staff in view of its ability---consistently and thoroughly exercised in all cases---to conduct discovery as necessary to gather all of the information it needs to make a determination of the WSIC surcharge eligibility of applicable meter replacement costs upon the Company's inclusion of the specific related activity in a WSIC cost recovery filing. Again, it is not a surprise that the Company continues to implement its aged meter replacement program. Appendix B to the currently-pending WSIC/SSIC Surcharge Application indicates that Aqua is requesting WSIC cost recovery related to capital costs totaling approximately \$3.673 million for meters installed pursuant to the Company's WSIC 2021 Meter Replacement Project in its Cary service region (Phase 1).<sup>12</sup> As indicated in footnote 12 below, the Quarterly Construction Status Report filed in the Sub 526A docket on February 12, 2021, placed the Public Staff on notice of the existence of this aged meter replacement project more than two weeks prior to the March 1, 2021 date of filing of the Company's current Three-Year Plan.

On page 6 of its Initial Comments, the Public Staff also requested that Aqua provide additional information regarding the Company's WSIC Meter Exchange Project, including (a) the number of water meters expected to be replaced by year, the names of the affected systems, and a description of the metering technology the Company expects to install; (b) a report presenting the available tracked information pursuant to Ordering Paragraph No. 24 of the Sub 526 Rate Case

---

<sup>12</sup> This aged meter replacement project involves the installation of approximately 13,000+ AMR meters installed in 300+ subdivisions in Aqua's Cary service region. Information related to installation of these meters was included in the Company's WSIC Construction Status Report for the fourth calendar quarter of 2020, which was filed in the Sub 526A docket on February 12, 2021.

Order; and (c) an update pursuant to Ordering Paragraph No. 25 of the Sub 526 Rate Case Order on the status of the Strategic Plan for Meter Data Management and Advanced Analysis.

In response to the Public Staff's request in (a) above for information regarding the Company's Meter Exchange Project, Aqua notes that the Company has already received two detailed Data Requests from the Public Staff Accounting Division related to the pending Application for Approval of WSIC/SSIC Surcharge Adjustments which, in pertinent part, request the following information for each system in which meters were replaced related to any meter replacement projects completed during the two calendar quarters ended December 31, 2020 and March 31, 2021:

- a. A copy of all meter replacement invoices
- b. The number of customers served on the system
- c. The number of meters installed
- d. The type of meters installed
- e. The reason the meters were replaced

Aqua asserts that the discovery process in the pending WSIC/SSIC surcharge case is the appropriate and better forum for the Public Staff to request and for the Company to provide the information necessary to establish the eligibility and reasonableness of the Company's WSIC Meter Exchange Project costs for WSIC cost recovery. The specific meter replacement information currently being requested by the Public Staff in its Initial Comments related to the current Three-Year Plan is premature and likely largely duplicative of the discovery process already undertaken by the Staff in the Company's pending WSIC/SSIC surcharge case.

Aqua provides the following information regarding the Public Staff's request for updates pursuant to Ordering Paragraphs 24 and 25 of the Sub 526 Rate Case Order. Upon acquisition of Peoples Gas, the Strategic Plan for Meter Data Management and Advanced Analysis (Strategic Plan) was integrated into Essential Utilities, Inc's corporate Service Improvement Program (SIP). SIP is a four-year technology roadmap to bring Aqua's operations on to common technology platforms, including Systems Applications and Products (SAP). The SIP business case was approved by the Essential Utilities Board of Directors in December 2019, and project work commenced in January 2020. As part of SIP, Aqua in North Carolina will convert to SAP in two phases, and the Data Management project requirements are included in SAP Phase 2. The SAP Phase 2 work is on track to start in September 2021, and is expected to be completed in Q2 2023. At that time, all Aqua North Carolina customers will have access to a new, much-improved self-service customer portal through Aqua's corporate website. Using that portal, Aqua's North Carolina customers will be able to view their billing and payment details, view usage data, make payments, start/stop service, and utilize other services. Aqua's customers in North Carolina who have, by that time, been converted to AMR technology, will then be able to view daily usage data through that portal, including their 40-day meter read data.

Aqua completed the Aqua Meter Reading Application (AMRA) upgrade project with initial user testing conducted in Q4 2019, and several adjustments were made in 2020 to facilitate readability and access to the 40-day usage information by Customer Service Representatives (CSRs). The usage data

maintained in AMRA is now currently available for internal use in table and graphic form. It is currently used for customer dispute resolution, provided upon customer request, and for other ad hoc requests. Field staff can also readily access the 40-day usage information on their tablets, which includes a link to the daily usage graph for a specific customer for help in troubleshooting work orders (e.g., high consumption).

Training materials were developed for the CSRs to provide the 40-day usage read data to those customers with AMR meters upon request. However, CSR training has been delayed due to COVID-19 prioritizations. This training is scheduled to be released later this year. Currently, customer requests for daily usage data that are made to CSRs are transferred internally to those select Aqua NC representatives who have access to and are trained to use the data.

In addition, Aqua is currently developing functionality to track and report on when the daily usage information is being shared as required under Ordering Paragraph No. 24 of the NCUC's Sub 526 Rate Case Order. Testing of this functionality is underway and is expected to be completed by the end of Q2 2021.

### **SSIC Grinder Pumps**

In Paragraph 9 of its Initial Comments, the Public Staff stated that Aqua, in its current Ongoing WSIC/SSIC Three-Year Plan, added line items in the Company's Uniform Sewer Rate Division for CW Grinder Pumps Central for amounts of \$193,920 in 2021, \$199,737 in 2022, and \$205,780 in 2023, and for CN Grinder Pumps Central for amounts of \$193,920 in 2021, \$199,737 in 2022, and \$205,780 in 2023. In its Initial Comments, the Public Staff also quotes from certain Commission Orders in support of its position that grinder pumps are not SSIC eligible, that they should be removed from the

Company's WSIC/SSIC Three-Year Plan, and that the costs thereof should not be allowed to be included in future SSIC cost adjustments filed by Aqua.

The Public Staff's position that grinder pumps are not eligible for SSIC cost recovery appears to be primarily related to the following quote (at page 10) from the Commission's December 17, 2020 WSIC/SSIC Surcharge Order in CWSNC's Sub 364A docket:

...Certain improvements that benefit only a single customer may provide no benefit the system. To the extent an improvement benefits a sole customer or relatively few customers, it is not an eligible improvement unless the utility can demonstrate that the improvement provides some benefit to the system. Thus, not all spending, even on improvements that might be enumerated in N.C.G.S. § 62-133.12(c) and (d), necessarily meets the stated criteria.

The Public Staff also supports its position by reciting prior arguments that the average costs of grinder pump projects are low-cost plant additions that will erode the 5% SSIC revenue cap allowed between rate cases and that grinder pumps were not included in Aqua's Ongoing Three-Year WSIC/SSIC Plan filed with the Commission on March 2, 2020.

### **Aqua's Request Regarding Grinder Pumps**

Contrary to the position taken by the Public Staff, Aqua maintains that the replacements of sewer system grinder pumps on pressurized sewer collection systems benefit not only the individual customers they serve, but are necessary, integral, and beneficial to maintaining the hydraulics and proper overall operation of the particular pressure sewer system as well. Aqua offers the following rationale in support of its position that grinder pumps are SSIC-eligible.

Aqua owns and operates twenty alternative sewer collection systems with approximately 4000 pumps in total. An alternative sewer collection system is one that utilizes a pressure sewer (grinder system), vacuum sewer, or Septic Tank Effluent Pump (STEP) system. The Company's largest system has 979 pumps. These systems are commonly called grinder pump systems, although they are pressure sewer systems. These grinder pump systems consist of multiple wastewater tanks and pumps which chop the solids in the wastewater prior to pumping the waste through a pressure sewer to a wastewater treatment plant. These systems are specifically permitted by the North Carolina Department of Environmental Quality ("NCDEQ") as a collection system in accordance with 15A NCAC 02T .0304 (c). This Rule provides as follows:

15A NCAC 02T .0304 (c): For pressure sewers, vacuum sewers, STEP systems and other alternative sewer systems discharging into a sewer system, the Permittee, by certifying the permit application and receiving an issued permit, agrees to be responsible for all individual pumps, tanks, service laterals and main lines as permitted. The line from a building to the septic or pump tank is excluded from this responsibility. This does not prohibit the Permittee from entering into a service agreement with another entity. However, the Permittee shall be responsible for correcting any environmental or public health problems with the system.

The most common problem with grinder pump systems is clogging due to flushable wipes and heavy materials. The removal of rags is considered maintenance. The pumps also fail primarily due to age, and with extended age the control panels also fail. The pump and control panel replacements are considered capital expenditures for the collection system asset. When these pumps systems fail, multiple problems can occur:

1. Sewage can back up in the residence or business, causing property damage and a public health concern.
2. Sewage can spill from the grinder tank and cause both public health and environmental concerns.
3. Failures of these pumps reduce the scouring velocities in the pressure sewers and can lead to pressure sewer reduced capacities and blockages. This can lead to greater strain on the other pumps in the system and a systemic grinder pump failure rate increase.
4. One of the “worst case” failures that can occur is a check valve failure in the grinder pump station that then allows the backflow of the sewage for the entire community into the residence or business or onto the ground. This can create an exceptional public health and environmental health problem.

These grinder pump systems can also have episodic periods of higher failure rates. The most recent instance of an episodic failure rate occurred after Hurricane Florence. Specifically, in that situation the power was returned simultaneously to an entire subdivision after several days without power. Each home has a full grinder pump station, and almost every grinder pump started simultaneously. This simultaneous start increased the sewer system pressure and the flowrates from each pump were reduced. This resulted in extended runtimes on the pumps and increased failure rates due to the long runtimes. The grinder pump stations, which are an integral part of the alternative sewer system permitted by North Carolina, are not stand-alone units for the sole benefit of a single customer.

There are, however, also grinder pump systems which *are* used for the sole benefit of individual customers. These grinder pump systems are for a single facility that includes a pressurized drain connecting to a utility-owned gravity sewer. These are permitted under the NC Plumbing Code, as part of P3007.6,

and are not permitted under NCDEQ jurisdiction.<sup>13</sup> The grinder pumps installed for the sole benefit of a single customer are not part of Aqua-owned sewer collection systems, and the Company does not provide maintenance or replacement for the grinder pump stations installed for the benefit of a single customer.

Based upon the information set forth above, which describes the actual function of the alternative sewer systems owned, operated and maintained by Aqua, the Company maintains that the grinder pumps on these sewer systems do not solely benefit single customers, but in fact benefit the community and sewer systems as a whole. These grinder pump replacements are, therefore, SSIC-eligible investments.

The Public Staff correctly noted that Aqua included, for the first time, line items for grinder pump replacements in the WSIC/SSIC Three-Year Plan filed in the Sub 526A docket on March 1, 2021. However, the Public Staff was aware, prior to that filing, of the Company's position that grinder pump replacements are SSIC-eligible, based on the WSIC/SSIC Surcharge Application previously filed in the Sub 526A docket on October 29, 2020.<sup>14</sup> In that Application, Aqua claimed a capital investment of approximately \$153,000 for grinder pump replacements as a SSIC-eligible cost.

---

<sup>13</sup> Aqua does not own, operate, and maintain any grinder pump systems permitted under the North Carolina Plumbing Code which are for the benefit of a sole customer.

<sup>14</sup> The SSIC Construction Status Report for the third calendar quarter of 2020, filed by Aqua in the Sub 526A docket on November 16, 2020, includes line-item expenditures for grinder pump replacements, which is another clear notice to the Public Staff that the Company then considered grinder pumps to be SSIC-eligible. The Public Staff was clearly aware of this issue, even though grinder pump replacements were not yet included in the Company's Three-Year Plan at that time.

In response to the opposition to recovery of grinder pump costs through the SSIC mechanism expressed by the Public Staff in the Notice filed on December 18, 2020, Aqua subsequently withdrew its October 29, 2020 SSIC grinder pump request by filing made on December 29, 2020. In doing so, the Company stated, in pertinent part, that:

Aqua appreciates the Public Staff's review and agrees with its recommendations, except for paragraph number 3 (at pages 5 – 6), which makes an adjustment of \$153,268 for removal of grinder pumps. Though not in agreement about the fundamental eligibility of grinder pumps for recovery under G.S. 62-133.12, in light of the Commission's useful guidance in the recent CWSNC Order and in the interest of efficiency, Aqua withdraws from consideration in this case the grinder pumps, respectfully reserving the right to present them for consideration in a future SSIC surcharge case, with additional support and under a procedure that is more consistent with that prescribed by the Commission in the CWSNC Sub 364A case.

Based upon the foregoing information, Aqua squarely disputes the Public Staff's argument about sufficiency of notice, because the Company has, since at least the date of its October 29, 2020 SSIC Surcharge Application, expressed a clear intent to pursue approval of costs related to grinder pump replacements through the SSIC mechanism. This intent was subsequently confirmed by the inclusion of grinder pump replacements as a category of the Company's proposed SSIC-eligible investments in the Ongoing WSIC/SSIC Three-Year Plan filed on March 1, 2021.

By its pending WSIC/SSIC Surcharge Application, Aqua seeks SSIC cost recovery for its capital investment of approximately \$71,151 for replacement of 23 grinder pumps in the Company's Uniform Sewer Rate Division during the first calendar quarter of 2021. This is a significant capital investment which should not be denied eligibility for SSIC surcharge cost recovery based upon the Public Staff's

argument that it represents a low-cost plant addition; that argument has no validity and should be rejected. Grinder pump replacements are SSIC-eligible improvements under G.S. 62-133.12 because they are necessary for Aqua "...to implement solutions to wastewater problems, and to comply with State and federal law and regulations." (See the Aqua Sub 363 Rate Case Order at page 76). In addition, they are necessary for Aqua "...to provide safe, reliable, and efficient service in accordance with applicable...effluent standards. G.S. 62-133.12(b). G.S. 62-131(b) also supports the Company's position on this point.

Aqua requests that the Commission deny the position taken by the Public Staff and, instead, adopt the Company's position and rule that pressure sewer system grinder pumps are eligible for SSIC cost recovery and are properly included in the Ongoing WSIC/SSIC Three-Year Plan, filed on March 1, 2021.

**North Carolina Department of Transportation ("NCDOT")  
Water and Sewer Main Relocations  
Aqua's Response to NCDOT Water and Sewer Main Relocations**

In Paragraph 10 of its Initial Comments, the Public Staff stated that Aqua included line items for NCDOT water and sewer main relocations for \$4.431 million in 2021, \$1.2 million in 2022, and \$0 in 2023. In addition, three specific projects are listed as line items without an amount of planned investment. In the report narrative regarding NCDOT water main relocation projects, the Staff stated that Aqua listed nine additional pending projects that the Company has been notified of by NCDOT but for which the Company has not included estimated completion dates or amounts. Water and sewer main relocation projects are main replacements that are not accelerated by the utility or for the purpose of improving

quality of service or reducing operation and maintenance expenses, but instead are initiated to facilitate highway projects. As Aqua has not provided all of “the types of improvements, corresponding dollar amounts, and the timing of the improvements” for these main relocations, the Public Staff asserted that Aqua should be required to “apprise the Public Staff of any deviations between the eligible improvements included in its WSIC/SSIC application and the eligible improvements presented in its latest three-year plan on file with the Commission.” (CWSNC WSIC/SSIC Order at page 8)

### **Aqua’s Response Regarding NCDOT Water and Sewer Main Relocations**

Aqua’s current WSIC/SSIC Surcharge Application requests cost recovery for two specific NCDOT water and sewer main relocations in the Aqua Uniform Water and Sewer Rate Divisions (related to the Flowers Plantation/Highway 42 relocation project) which have consistently appeared in the Company’s prior and current WSIC/SSIC Three-Year Plans and Quarterly Construction Status Reports. There can be no surprise to the Public Staff with respect to these two projects--- one WSIC and one SSIC.

Including the one WSIC NCDOT water main relocation project noted above, Aqua budgeted a total of approximately \$700,000 on two known and planned WSIC NCDOT relocation projects in the Uniform Water Rate Division during the Company’s current 2021-2023 planning period. In addition, including the one SSIC NCDOT utility relocation project noted above, Aqua budgeted a total of approximately \$4.93 million on two known and planned SSIC NCDOT utility location projects in the Uniform Sewer Rate Division during the Company’s current

2021-2023 planning period. A third known project, which involves both water and sewer relocations, currently has no definite date or estimated cost for the project during the three-year planning period. A fourth known WSIC project in the Brookwood Water Rate Division is currently on hold and no date or estimated cost is available. Additional projects may be completed during the current three-year planning period, but the amounts and estimated project dates, managed by the NCDOT, are unknown at this time.

In view of the Public Staff's Initial Comments where Aqua has not provided completion dates or cost estimates for certain listed NCDOT utility relocation projects, the Company will keep the Public Staff apprised as to the status of those projects as circumstances change and through the Quarterly Construction Status Reports. Otherwise, Aqua requests that the Commission conclude that this portion of the Company's current WSIC/SSIC Plan is compliant with expectations and provides the necessary information to the maximum extent possible under the circumstances which pertain to timetables of NCDOT utility relocation projects.

### **Conclusions**

Aqua requests that the Commission carefully review the Company's current WSIC/SSIC Ongoing Three-Year Plan and this Verified Response to the Initial Comments of the Public Staff and enter an Order which finds and concludes (a) that the Company's current Ongoing Three-Year Plan materially complies with the informational requirements set forth in NCUC Rules R7-39 and R10-26 and is not materially deficient; (b) that the Public Staff has not documented material deficiencies with the Company's current Three-Year Plan which require revisions

to be filed; (c) that Aqua's Verified Response fully addresses the deficiencies alleged by the Public Staff and provides additional responsive information that supplements the information contained in the current Three-Year Plan - thereby curing any minor deficiencies in the Plan; (d) that an otherwise eligible WSIC or SSIC improvement's lack of specific inclusion in a Three-Year Plan, whether or not included as part of a budget marker, does not limit its eligibility as a WSIC/SSIC recoverable cost; and (e) that Aqua and the Public Staff are expected to work cooperatively to address and resolve questions and issues that may arise as to details in the current and/or future Ongoing Three-Year Plans prior to formally bringing those issues to the Commission.

Aqua further requests that this Verified Response be recognized and treated by the Commission and the Public Staff as an addendum to the Company's pending Application for Approval of Water and Sewer System Charge Rate Adjustments filed in this same docket on April 28, 2021.

Respectfully submitted this the 7th day of May 2021.

**ATTORNEYS FOR AQUA NORTH CAROLINA, INC.**

**Electronically Submitted**

**/s/Jo Anne Sanford**

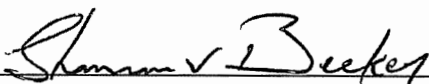
North Carolina State Bar No. 6831  
Sanford Law Office, PLLC  
Post Office Box 28085  
Raleigh, North Carolina 27611-8085  
Telephone: 919.210.4900  
[sanford@sanfordlawoffice.com](mailto:sanford@sanfordlawoffice.com)

**/s/Robert H. Bennink, Jr.**


North Carolina State Bar No. 6502  
Bennink Law Office  
130 Murphy Drive  
Cary, North Carolina 27513  
Telephone: 919.760.3185  
[BenninkLawOffice@aol.com](mailto:BenninkLawOffice@aol.com)

**VERIFICATION**

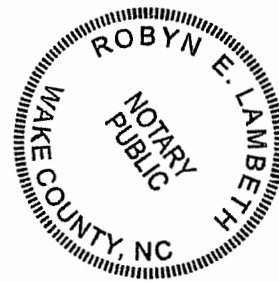
**Shannon V. Becker**, being duly sworn, deposes and says: that he is the President of Aqua North Carolina, Inc.; that he is familiar with the facts set out in this **VERIFIED RESPONSE TO INITIAL COMMENTS OF THE PUBLIC STAFF**, filed in Docket No. W-218, Sub 526A; that he has read the foregoing Verified Response and knows the contents thereof; and that the same is true of his knowledge except as to those matters stated therein on information and belief, and as to those he believes them to be true.

  
Shannon V. Becker

Sworn to and subscribed before me this  
the 7<sup>th</sup> day of May 2021.

  
Robyn E. Lambeth  
Notary Public

My Commission Expires: May 13 2021



**CERTIFICATE OF SERVICE**

I hereby certify that on this the 7th day of May 2021, a copy of the foregoing  
**VERIFIED RESPONSE TO INITIAL COMMENTS OF THE PUBLIC STAFF**, filed in  
Docket No. W-218, Sub 526A, has been duly served by electronic service upon  
the parties to this docket.

**Electronically Submitted**

**/s/Jo Anne Sanford**  
State Bar No. 6831  
SANFORD LAW OFFICE, PLLC  
Post Office Box 28085  
Raleigh, North Carolina 27611-8085  
Tel: (919) 210-4900  
sanford@sanfordlawoffice.com

**ATTORNEY FOR AQUA NORTH CAROLINA, INC.**