



**NORTH CAROLINA
PUBLIC STAFF
UTILITIES COMMISSION**

May 26, 2021

Ms. Kimberley A. Campbell, Chief Clerk
North Carolina Utilities Commission
4325 Mail Service Center
Raleigh, North Carolina 27699-4300

Re: Memorandum of Understanding by and between the Public Staff –
North Carolina Utilities Commission and Aqua North Carolina, Inc. in
Support of Accounting Treatment of Purchased Water Expenses
Docket No. W-218, Sub 526A

Dear Ms. Campbell:

In its Order Approving Partial Settlement Agreement and Stipulation, Deciding Contested Issues, Granting Partial Rate Increase, and Requiring Customer Notice, issued on October 26, 2020, in Docket No. W-218, Sub 526 (Sub 526 Order), the Commission directed Aqua North Carolina, Inc. (Aqua NC or Company) and the Public Staff – North Carolina Utilities Commission (Public Staff) to “develop a mutually-agreeable purchased water loss standard based upon the methodology for purchased water systems set forth in Aqua NC’s Pearce and Kunkel rebuttal testimony for implementation in the Company’s next general rate case.” The Commission also directed Aqua NC and the Public Staff to report on the progress of their discussions within nine months of the Commission’s Order.

Pursuant to the Commission’s directive, the Public Staff and Aqua NC 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. To that end, enclosed for filing please find a Memorandum of Understanding (MOU) by and between the Public Staff and Aqua NC.

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Ms. Kimberley A. Campbell
Page Two
5/26/2021

The parties determined through joint discussions that the development of a mutually-agreeable purchased water loss standard based on the methodology set forth in Aqua NC's Pearce and Kunkel rebuttal testimony will require data that is not currently available and will take additional time to compile and review. In recognition of this fact, the parties agreed to an interim methodology for determining an allowable amount of purchased water loss and accompanying adjustment to the Company's purchased water expense. As set forth in greater detail in the MOU, the parties have compromised to increase the percentage of allowable water loss by volume from 15% to 20% for the Company's next two general rate cases. Presently, the results of American Water Works Association M36 Water Audits and the associated performance indicators for Aqua NC's relatively small purchased water systems may not be comparable in number of connections or size of infrastructure to those of the substantially larger public water utilities, such as those in California and Georgia referenced in Aqua NC's Kunkel rebuttal testimony. The two-rate case term of the agreement will provide adequate time for Aqua NC to develop data that is more representative of its purchased water systems by conducting multiple years of internal M36 Water Audits, and for the parties to evaluate the data and key performance indicators and develop a new standard based on those audits.

For the foregoing reasons, Aqua NC and the Public Staff request that the Commission accept the attached MOU in compliance with the requirement set forth in Ordering Paragraph No. 16 of its Sub 526 Order.

Sincerely,

/s/ Megan Jost
Staff Attorney
megan.jost@psncuc.nc.gov

Enclosure

cc: Parties of Record
Shannon V. Becker, President, Aqua North Carolina, Inc.

**MEMORANDUM OF UNDERSTANDING BETWEEN
THE PUBLIC STAFF – NORTH CAROLINA UTILITIES COMMISSION
AND AQUA NORTH CAROLINA, INC.**

DOCKET NO. W-218, SUB 526A

This Memorandum of Understanding (MOU) is entered into as of May 25, 2021, by and between the Public Staff – North Carolina Utilities Commission (Public Staff) and Aqua North Carolina, Inc. (Aqua NC or Company), hereinafter collectively referred to as the Parties. The MOU pertains to the appropriate amount of allowable purchased water loss to be used as an interim methodology 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's Pearce and Kunkel Sub 526 rate case rebuttal testimony.

1. In its Order Approving Partial Settlement Agreement and Stipulation, Deciding Contested Issues, Granting Partial Rate Increase, and Requiring Customer Notice, issued on October 26, 2020, in Docket No. W-218, Sub 526 (Rate Case Order), the Commission ordered as follows:

16. That Aqua NC and the Public Staff shall develop a mutually-agreeable purchased water loss standard based upon the methodology for purchased water systems set forth in Aqua NC's Pearce and Kunkel rebuttal testimony for implementation in the Company's next general rate case and report on the progress of those discussions to the Commission within nine months of this Order.

Rate Case Order at 170.

2. In its Order, the Commission cited to the Partial Settlement Agreement and Stipulation (Stipulation) filed on July 1, 2020, in the

aforementioned docket. Section III, Paragraph HHH of the Stipulation states that Aqua NC and the Public Staff agree to utilize a 15% adjustment for allowable purchased water loss in the Sub 526 case. Further, Paragraph HHH states that Aqua NC and the Public Staff agree to work toward the development of a mutually-agreeable standard based upon the methodology for purchased water systems set forth in Aqua NC's Pearce/Kunkel rebuttal testimony for implementation in Aqua NC's next general rate case, and to report the progress of those efforts in the next rate case.

3. In addition, the Commission stated on page 62 of its Order, "Based upon the record in this docket, 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."

4. Aqua NC's initial rate case application in the Sub 526 docket did not include any amount of adjustment for recoverable water losses. Public Staff witness Lindsay Darden recommended disallowance of purchased water expense for water loss, by supplier, that exceeded 15%. In rebuttal, Aqua NC witnesses Joseph Pearce and George 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 for detection and resolution of 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.

5. In acknowledgement of the Commission's 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. The following topics and considerations were discussed:

- a. The simplicity and efficiency of a percent purchased water loss standard, calculated as percentage water loss = $([\text{gallons of water purchased} - \text{gallons of water sold}] / \text{gallons of water purchased}) \times 100\%$.
- b. The value of monitoring percentage water loss on a rolling annual average basis.
- c. The additional information considered as part of the M36 Water Audit and the application of its results.
- d. 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 rebuttal testimony from witness Kunkel.

6. The Parties agree that the development of a purchased water loss standard based on the methodology set forth in Aqua NC's Pearce and Kunkel rebuttal testimony will require data that is not currently available and will take additional time to compile and review. Accordingly, the Parties further 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 consolidated general rate case proceedings. This standard shall be applied to each water system that is solely supplied by purchased water from a third-party provider. Therefore, the purchased water expense shall not include the cost of purchased water losses in excess of 20% on a system basis.

7. The Parties further 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 that exceed 15% water loss, thus providing an action item to prompt an investigation into the possible causes and fixes for increasing water loss.

8. The Parties agree that this 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.

9. The Parties agree that this MOU is for the interim term of two general rate case proceedings, which 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 intend to develop a mutually-agreeable water loss standard based on the M36 Water Audits for use in subsequent rate cases.

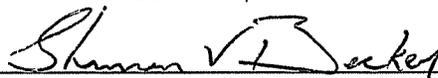
10. Aqua NC anticipates internal M36 Water Audits for calendar year 2020 will be completed for systems that exceed 15% water loss by May 31, 2021. Aqua NC will provide the results of the internal M36 Water Audits and the Company's analysis of those results to the Public Staff no later than July 15, 2021. The Parties will file 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, and every six months thereafter until the expiration of the two-rate case interim period.

11. This MOU may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute the same instrument. Execution by facsimile signature shall be deemed to be, and shall have the same effect as, execution by original signature.

The foregoing is agreed to this the 25th day of May, 2021.

Aqua North Carolina, Inc.

By:



Shannon V. Becker
President

Public Staff – North Carolina Utilities Commission

By:



Christopher J. Ayers
Executive Director