



Carolina Water Service
of North Carolina™

Uniform Rates and Tariff Consolidation

Second Technical Conference
before the North Carolina
Utilities Commission

March 11, 2024



CWSNC Strategic Outlook on Consolidation



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- Long Term Consolidation of Water/Wastewater Entities within the state.
 - Eventually, major investments in a system will occur, and waiting for it to occur before they are part of the uniform rate paradigm withholds benefit to the customers that are needed now. There is a long-term cyclical nature of investment needs: one system now, a different system in 2 years, a different system in 2 years.
 - Our outlook is long term; we have been here for 40 years and are here for the long term. We live in and are vested and invested in the communities that we serve.
 - Uniform rates act as a rate moderator for those that have the needs now, and those who will have the needs eventually.
- Ownership by a larger utility provides extensive benefits to the customers.
 - Billing, Customer Service, IT and Operational Technology, Security, Accounting, Finance/tax/treasury, Legal, Risk Management, Health, Safety and Environment (HSE).
 - Knowledgeable, experienced ownership and local operations.
 - Depth of operations, expansive team that covers multiple states and is available to support each other during significant events (hurricanes, fire, freezing weather, etc.)
 - Ability to deploy capital investment in a changing environmental regulation landscape.
 - Administrative efficiency for utility, regulator, and stakeholders.



Public Interest

- Uniform Rates continue to serve the public interest in North Carolina in the following ways:
 - Mitigation of future rate shock to customers when their system requires significant capital investment
 - Improves long-term affordability for customers
 - Lowers administrative costs for the utility and regulators
 - Incentivizes regionalization and acquisitions of troubled systems
 - Easier to justify capital investment in smaller systems
 - Improved service quality for smaller systems
 - Administratively easier (and less expensive) to incorporate acquired systems into a consolidated tariff group



Notable NARUC Resolutions

- *Resolution Supporting Consideration of Regulatory Policies Deemed as “Best Practices”*
- **WHEREAS**, In light of the possibility that rate increases necessary to remediate aging infrastructure to comply with increasing water quality standards could adversely affect the affordability of water service to some customers, the following were identified as best practices to address these concerns: a) rate case phase-ins; b) innovative payment arrangements; **c) allowing the consolidation of rates (“Single Tariff Pricing”) of a multi-divisional water utility to spread capital costs over a larger base of customers;** and d) targeted customer assistance programs; and
- Source: https://www.floridapsc.com/pscfiles/website-files//PDF/Utilities/WaterAndWastewater/workshops/02_01_2023/NAWC_att08.pdf



Notable NARUC Resolutions

- *Resolution Supporting the Consideration of Regulatory Mechanisms and Policies Deemed “Best Practices” for the Regulation of Small Water Systems*
- **WHEREAS**, To meet the challenges of environmental compliance and continued capital investment required to deliver safe and reliable service to the customers served by regulated small water systems, the following practices have been identified as means to improve sustainable and continued investment in small water system infrastructure at cost-effective rates:
 - a) simplified rate applications for small water systems; b) electronic filing procedures; c) use of the annual report provided by the utility to the public utility commission to provide a significant portion of the rate application; d) commission staff assisted rate cases including both direct commission staff involvement in the rate application process and site visits to reduce the need for formal discovery; f) simplified rate of return mechanisms that may include formulaic rate of return calculations or percentage increases in authorized returns indexed to recent water cases in the same jurisdiction; g) cost of living adjustments; h) rate mechanisms to facilitate emergency infrastructure funds; i) operating ratio rate mechanisms where there is very limited rate base; j) limiting the use of Contributions In Aid of Construction in situations where unsustainably low rates may be instituted as a result; and k) combining water and wastewater revenue requirements for purposes of rate cases, as appropriate, if the water and wastewater utilities are under the same ownership, which will reduce rate case expense and offer rate increase mitigation options driven by economies of scale that would be unavailable otherwise; and

Source: <https://pubs.naruc.org/pub.cfm?id=53A0D971-2354-D714-51EB-8A01C0909879>

Topic 1



Whether water and wastewater systems should be grouped based on similar costs of service or other similar characteristics to address the unique differences of each system without performing individual system cost of service studies when establishing rates?

- CWSNC Position is that the only defining characteristic should be Water / Sewer; single revenue requirement and truly uniform rate absent the need for gradualism in certain cases.
- Employing a consolidated revenue requirement should not preclude consolidation of rates, and indeed should catalyze the process. Characteristics within the water group, such as source (purchased, well, etc.), are not likely to be significant enough to overcome the benefits of consolidation.
- We acknowledge that the availability of metered/flow data for customers may limit true consolidation of rates, but constructs for metered/unmetered tariffs have long been utilized that allow alignment (e.g., presumed avg. monthly flow).
- That said, the Commission should look to avoid overly strict/objective criteria to allow flexibility to move the systems to rate convergence in a manageable way.

Topic 2



Whether a transferred system can be incorporated into an existing WSIP multi-year rate plan to avoid increasing the number of standalone rate entities between WSIP periods?

- CWSNC believes that to be the case, and it should be the default position presuming the system is to be combined with an existing Rate Division.
- It may require extra flexibility for performance metrics reporting. The specific circumstances can be determined in the transfer proceeding. For example: 1) timing of the transfer proceeding relative to the WSIP or renewal WSIP term, 2) whether a rate freeze was agreed to, 3) availability of data from acquired system (e.g., there may not initially be meters in place to measure flows, or compliance violations as of acquisition may take time to resolve).

Topic 3



How should the Commission address the affordability issue for low-income customers when migrating to uniform rates? What tools, if any, are available within the North Carolina General Statutes and Commission rules to address the affordability issue?

- The Commission should focus on broad programs (not system-specific) that have the potential for wide participation and benefit, regardless of the rates in place. Customer assistance programs (CAPs) should be tailored to the utility provider and their customers' needs and the utility's resources (or lack thereof in both cases). For example, a utility may be too small or have too few potential participants to institute a CAP. Also, these needs and resources evolve over time, and any particular CAP may require modification (often based on accumulation of helpful data) to continue to provide reasonable benefits. Therefore, codifying CAPs by statute and Rule is not necessary.
- CAPs should be easy to access and apply for, broadly communicated, and simple and efficient to administer.
- Additionally, many counties and larger providers offer assistance programs. There are many strategies being employed, to varying degrees of success.

Topic 4



Whether acquired systems that have a cost of service less than the utility's uniform rate cost of service should be included in uniform rates at the time of transfer.

- Reading "Acquired Systems" to mean transfers of CPCN, as this is already true for contiguous extensions and other developer activity.
- CWSNC position is that they should be included in uniform rates at the time of transfer, or have a clear path to uniform rates over some nominal number of years/rate filings in order to effectuate the benefits of their lower cost of service to the group of rate payers as a whole, preferably before large cost increases from delayed or simply cyclical capital investment drive the system's rate up substantially.
- Should the consistent result of acquiring systems with low rates (often artificially so, due to subsidization or delayed maintenance or investment) be to delay the process of rate consolidation, utilities will be disincentivized to acquire such often troubled systems. As the existing rates for these systems are, as noted, often understated, consolidating with existing uniform revenue requirements and putting them on the path to rate parity provides a more realistic and practical account of their impact as part of the larger utility.

Topic 5



Should the Commission consider it appropriate ongoing policy that the determination of whether uniform rates are appropriate at the time of transfer will be made on a case-by-case basis regardless of whether the cost of service for the standalone system supports such approval?

- Yes, default to uniform rates absent extenuating circumstances should be the Commission policy regardless of the cost of service for the standalone system supporting such approval. The benefits, especially in the long term, justify and outweigh negatives in most cases.
- The acquiring utility is disincentivized to acquire systems that will require separate handling and regulatory/administrative processes (stand-alone rate cases, compliance filings, etc.) When the initial determination of authorized rates is made with the transfer, the Commission should make their position of the expected future consolidation progress known to provide regulatory and administrative transparency.

Topic 6



What mechanisms would facilitate efficient transfer of small water and wastewater systems to the larger utilities? For example, for administrative efficiency, should an acquiring utility be permitted to combine several acquisitions into a single consolidated application for Commission approval? If so, what changes should be made to the existing transfer application to create a more efficient process for all parties and the Commission?

- Determine certain details can be waived if a “non-viable” system is being acquired, or based on a track record of successful improvements to acquired troubled systems, can authorize other incentives (ROE adders, post-in-service return, etc.). Other incentives have been authorized and promoted by AZ and NY , for example (see Useful Sources of Discussion slide).
- Full cost of service support is unduly time-consuming and administratively burdensome, especially for small systems with limited data or significant overhauls required; default movement for rates would alleviate that burden.

Topic 7



Should the rate base of the acquired systems be established in the transfer proceeding, rather than having the rate base determination deferred to a future general rate case proceeding? If so, are there any exceptions in which the rate base determination should be deferred to a future rate case proceeding?

- Allow the utility to request either option, as there may be reasons that support one or the other strategy: timing to next rate case, existing cost recovery levels, need to promptly close to facilitate needed improvements, alternative tracking/recovery methods such as capital improvement surcharge.



Questions?



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Useful Sources of Discussion

From AZ Small Water Utility Policies statement, AZ Docket W-00000C-16-0151. “As a general policy, the Commission believes that the practical benefits from allowing rate consolidation involving small water and wastewater utilities far outweigh the benefits of a strict adherence to this (“Cost user pays”) theoretical principle.”

[AZ Docket W-00000C-16-0151 Small Water Utility Policies](#)

From NY Case 93-W-062. This policy is intended to foster acquisitions and mergers that will: (1) improve the ability of small water companies to provide service; (2) improve customer service; (3) make it easier to comply with current and future regulations; (4) avoid drastic rate increases; (5) bring the rates of merged systems into parity; (6) improve and consolidate management and operation; and (7) promote conservation.

[93-w-0962-establish-policy-provide-incentives-acquisition-and-merger-fo-small-.pdf \(ny.gov\)](#)



Carolina Water Service
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89k PEOPLE
SERVED



300+ WELLS



38 COUNTIES



85+ EMPLOYEES



35 WASTEWATER
TREATMENT PLANTS



35k WATER
CONNECTIONS



22k WASTEWATER
CONNECTIONS



105 WATER SYSTEMS

