



**NORTH CAROLINA
PUBLIC STAFF
UTILITIES COMMISSION**

June 14, 2022

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

Re: Docket No. W-218, Sub 526A – In the Matter of Application by Aqua North Carolina, Inc., 202 MacKenan Court, Cary, North Carolina 27511 for Approval of Annual Adjustment to Conservation Pilot Program Revenue Reconciliation Charge/Credit

Dear Ms. Dunston:

The Public Staff respectfully submits for filing with the Commission in the above-referenced docket the enclosed proposed order. The Public Staff will email a Microsoft Word copy of the proposed order to briefs@ncuc.net.

By copy of this letter, I am forwarding a copy to all parties of record by electronic delivery.

Sincerely,

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

Enclosure

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**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 Carolina 27511, for Approval of Annual Adjustment to Conservation Pilot Program Revenue Reconciliation Charge/Credit) PROPOSED ORDER OF THE) PUBLIC STAFF APPROVING) CONSERVATION PILOT PROGRAM) REVENUE RECONCILIATION) SURCREDIT AND REQUIRING) CUSTOMER NOTICE
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BY THE COMMISSION: On February 14, 2022, Aqua North Carolina, Inc. (Aqua or the Company), filed a Conservation Pilot Program annual reconciliation request (Reconciliation Request) pursuant to the Commission's Order Approving Partial Settlement Agreement and Stipulation, Deciding Contested Issues, Granting Partial Rate Increase, and Requiring Customer Notice (Sub 526 Rate Case Order) issued on October 26, 2020, in Docket No. W-218, Sub 526 (Sub 526 rate case).

On April 1, 2022, the Public Staff filed its Notice of Public Staff's Plan to Present Comments and Recommendations at the Commission's April 18, 2022 Regular Staff Conference (Notice).

On April 8, 2022, Aqua filed its response to the Public Staff's Notice, consisting of a second affidavit of Dean M. Gearhart, Manager, Rates and Planning for Aqua (Response).

Prior to the April 18, 2022 Regular Staff Conference, the Commission notified the parties that this matter would be removed from the agenda.

On May 4, 2022, the Commission issued an Order Scheduling Oral Argument and Requiring Verified Responses by the Parties directing the parties to file verified responses to nine questions by May 11, 2022, and scheduling oral argument on May 16, 2022.

On May 11, 2022, Aqua and the Public Staff filed verified responses to the Commission's questions. In addition, the Public Staff filed a motion requesting that the Public Staff and Aqua be permitted to have one or more technical witnesses present at the oral argument to respond to any technical questions from the Commission. The Commission issued an order granting the Public Staff's motion on May 12, 2022.

On May 16, 2022, the Commission heard oral arguments from the parties. Shannon Becker, Aqua’s President, responded to questions from the Commission, as did Charles Junis, Director of the Public Staff’s Water, Sewer, and Telephone Division.

On May 31, 2022, the Commission filed a notice setting June 14, 2022 as the due date for proposed orders and briefs.

Based on the Reconciliation Request, the records of the Commission, the comments and recommendations of the Public Staff, the responses of Aqua, the parties’ verified responses to the Commission’s questions, and oral arguments, the Commission makes the following

FINDINGS OF FACT

1. Aqua is a corporation duly organized under the laws of and is authorized to do business in the State of North Carolina. Aqua is a franchised public utility providing water and sewer utility service to customers in North Carolina.

2. In the Sub 526 rate case, Aqua proposed to implement a Conservation Pilot Program for residential customers in five of the Company’s service areas in North Carolina, including a revenue reconciliation process.

3. The Sub 526 Rate Case Order includes the following Findings of Fact regarding the Conservation Pilot Program and the revenue reconciliation process:

33. For the pilot program, Aqua NC proposed four usage tiers with inclining block rates and separate irrigation rates to be charged to residential water customers in the Arbor Run, Merion, Pebble Bay, and Bayleaf Master System service areas (a portion of the Aqua NC Water Rate Division) and The Cape service area (Fairways Water Rate Division). The Company stated that its pilot program proposal is contingent upon Commission approval of its proposed revenue reconciliation process specific to the pilot areas. According to Aqua NC, the purpose of the proposed revenue reconciliation process is to assure that the Company will receive its full authorized revenue requirement, no more and no less.

....

43. It is reasonable and appropriate that a Conservation Pilot Program be designed to maintain revenue sufficiency and stability for Aqua NC. A revenue reconciliation mechanism is appropriate to support the Company’s reasonable opportunity to recover its full Commission-approved revenue requirements despite implementation of a Conservation Pilot Program.

....

44. For purposes of implementing the Conservation Pilot Program in a portion of the Aqua NC Water Rate Division, a revenue reconciliation process applicable only to the pilot group is in the public interest. It is reasonable and appropriate that a revenue reconciliation process as set forth by the Company be integral to the pilot program; however, such revenue reconciliation process allowed in this docket for this specific purpose is not intended to establish the process by which any future revenue reconciliation for Aqua NC or other regulated utilities related to actual consumption variances from Commission-approved levels in general rate case proceedings as allowed by N.C. [Gen. Stat.] § 62-133.12A will be calculated.

4. Aqua's Reconciliation Request is based on the second scenario presented in Aqua witness Edward Thill's Direct Exhibit 4. Under this scenario, customers were assumed to have higher than average consumption and Aqua would refund all the excess revenues through a monthly surcredit over nine months. Thill Direct Exhibit 4 did not address customer growth or base facility charges.

5. In the Sub 526 rate case, the Pilot Program-annualized billing determinants were 81,972 bills and 562,713,732 gallons, resulting in a monthly average consumption per bill of 6,865 gallons. The Pilot Program service revenue requirement authorized by the Commission was \$5,482,975, comprised of \$1,696,820 (31%) for base facility charges and \$3,786,155 (69%) for consumption charges.

6. During the 12 months of 2021, Aqua issued 83,550 bills for 579,753,300 gallons, resulting in a monthly average consumption per bill of 6,939 gallons. The actual Pilot Program service revenue was approximately \$5,691,105, comprised of \$1,729,485 for base facility charges and \$3,961,620 for consumption charges.

7. In its Reconciliation Request, Aqua compares the monthly average bill amount for consumption charges utilizing the number of bills and total consumption from the Sub 526 rate case (\$46.19) and from the actual 12 months of 2021 (\$47.42) and calculates a revenue excess of \$1.23 per bill. Aqua proposes to refund a total of \$102,766.50, which is the revenue excess of \$1.23 per bill multiplied by the 83,550 bills issued to Pilot Program customers in 2021. Aqua subsequently, in its verified responses to the Commission's questions, acknowledged this calculation was not completely consistent with Thill Revised Exhibit 4, Scenario 2, which would have applied the calculated percentage (2.7%) to the usage revenue from the rate case (\$3,796,155). Instead of issuing monthly flat rate bill credits in each of the nine remaining months of the year, as Aqua illustrated in Thill Direct Exhibit 4 and recommended in the Sub 526 rate case, Aqua proposes to issue, in April 2022, or after the Commission's issuance of an order in this matter, a one-time, flat rate bill credit of \$14.56 to each Pilot Program customer as of December 2021. Aqua further proposes that the Commission rule that no interest must be assessed on the excess revenue to be refunded to customers due to the complexity of determining the amount of interest due and the "negligible" amount of interest that would be due. Subsequently, during oral argument, Aqua withdrew its

proposal that the Commission not impose any interest on excess revenue refunded to customers and instead proposed that the Commission set the interest rate on refunds as 6.81%, the Company's current overall rate of return.

8. In comparison to the Pilot Program billing determinants and the revenue requirement approved in the Sub 526 rate case, Aqua issued 1,578 more bills for 17,039,568 more gallons in the 12 months of 2021, resulting in the collection of an additional \$208,130 of service revenue, comprised of \$32,665 for base facility charges and \$175,465 for consumption charges.

9. The Public Staff initially recommended that the entire \$208,130 of service revenue in excess of the revenue requirement approved by the Commission in the Sub 526 rate case be refunded as a one-time, flat rate bill credit of \$29.48, plus interest pursuant to N.C.G.S. § 62-130(e). The Public Staff subsequently revised its recommendation to allow Aqua to retain the portion of the revenue excess attributable to its base facility charge in the amount of \$32,665 and refund the \$175,465 of excess consumption revenue as a one-time, flat rate bill credit of \$24.86, plus interest.

10. The Public Staff initially recommended that the bill credit, plus interest, be issued as part of Aqua's next billing cycle, but no later than May 31, 2022. The Public Staff stated that this timing would best preserve the conservation signal the Pilot Program is intended to produce. Following oral argument, in light of the time elapsed since it filed its Notice, the Public Staff recommended that the bill credit, plus interest, be issued as part of Aqua's next billing cycle.

11. It is reasonable and appropriate for Aqua to utilize the methodology and issue the revenue reconciliation recommended by the Public Staff as stated above, plus interest at a rate of 10% per annum pursuant to N.C.G.S. § 62-130(e).

DISCUSSION AND CONCLUSIONS

The Commission has reviewed the Reconciliation Request, the Public Staff's Notice, Aqua's Response, the parties' verified responses to the Commission's questions, oral arguments, the Sub 526 Rate Case Order, and the applicable statutes and Commission Rules.

Public Staff Notice

In its Notice, the Public Staff recommended that the entire \$208,130 of service revenue in excess of the service revenue approved by the Commission in the Sub 526 rate case be refunded as a one-time, flat rate bill credit of \$29.48, plus interest at a rate of 10% per annum pursuant to N.C.G.S. § 62-130(e).

In support of its recommendation, the Public Staff noted that, in its Sub 526 Rate Case Order, the Commission authorized revenue requirements for Aqua's five rate divisions and a portion of the Aqua NC Water rate division; the Commission did not

authorize a specific service revenue requirement per bill or per customer for any of the rate divisions, or the Conservation Pilot Program service areas. The Public Staff further noted that the service revenue requirement is not determined based on number of bills or customers, or on usage. Instead, it is an annualized amount that includes reasonable operating expenses and an authorized overall rate of return using the rate base method as allowed by N.C.G.S. § 62-133.

The Public Staff noted that, under Scenario 2 of Thill Direct Exhibit 4 and Thill Revised Direct Exhibit 4, the entire block revenue difference was calculated to be revenue excess refunded to customers. The Public Staff asserted that Aqua should not be permitted to retain a significant portion of the usage charge revenues associated with bills that exceeded the number of bills included in Aqua's rate design because the revenue reconciliation methodology it proposed did not address scenarios that were likely to occur, such as customer growth.

Aqua Response

In Aqua's Response, Mr. Gearhart asserted that the Public Staff's recommended calculation of the revenue reconciliation should be dismissed because it was contrary to revenue reconciliation process "as set forth by the Company," which the Commission found and concluded in the Sub 526 rate case was integral to the Pilot Program. Mr. Gearhart stated that the Public Staff's recommended calculation disregarded the average per customer use standard which was foundational to the Company's revenue reconciliation process. Mr. Gearhart also stated that the Public Staff's recommended calculation implemented a cap based on the revenue requirement the Commission set in the Sub 526 rate case, and that Aqua witness Thill's response was "negative" when asked during the Sub 526 rate case evidentiary hearing whether the Company would be agreeable to a cap.

Mr. Gearhart stated that the Company's proposed refund was "calculated based solely on the *per-bill usage/block* revenue for [the Pilot Program] customers during 2021." (Emphasis in original.) He stated that average per customer use was a "lynchpin" of the Company's revenue reconciliation process, which was encapsulated in Thill Revised Exhibit 4, Scenario 2, and endorsed by the Commission. Regarding the Public Staff's imposition of a revenue cap, Mr. Gearhart stated that the Commission did not impose a revenue cap and that witness Thill testified during the Sub 526 rate case hearing that he did not think the Company would agree to such a cap.

Regarding the Public Staff's recommendation that the Commission apply an interest rate of 10% to the customer refunds at issue in the Reconciliation Request, Mr. Gearhart stated that the Company's willingness to make the refunds as a one-time bill credit as opposed to over the course of nine to twelve months "mitigates and offsets any need for the Commission to require the accrual of interest." Mr. Gearhart further stated that, if the Commission determined it was appropriate to apply interest, the Company requested a rate of 6.81%, the overall rate of return authorized by the Commission in the

Sub 526 rate case, and that interest at the same rate be applied to any customer surcharges resulting from revenue under-recoveries.

Verified Responses to Commission Questions

Aqua

In its verified responses to the Commission's Questions 1 and 2 issued May 4, 2022, Aqua asserted that there was a "math error" in its calculation of its Reconciliation Request, but that the calculation was completely consistent with Thill Revised Exhibit 4, Scenario 2.

In response to the Commission's Question 3 about customer growth, including whether the use of 2021 actual bills would incorporate customer growth given that some of those bills were new, Aqua stated that witness Thill did not include customer growth in Scenario 2 of Thill Direct Exhibit 4 and Revised Thill Direct Exhibit 4 because, "[h]e was providing a few simplified examples" Aqua claimed that when witness Thill testified that his reconciliation method was based on "average per customer usage," he was "propos[ing] to refund any surplus revenues due to under-conservation but **not** refund revenues due to customer growth." (Emphasis in original.)

In response to Question 4, Aqua again asserted that witness Thill's statement during the evidentiary hearing in the Sub 526 rate that he didn't "think the Company would agree to [capping the Pilot Program to the revenue requirement]" "clearly" addressed the Company's position on this issue.

In response to the Commission's Question 6 asking the parties whether they considered the Company's revenue reconciliation to be "centered on calculations based on average per customer use," Aqua reaffirmed its earlier statements that its calculations were based on average per customer use. The Company asserted that the Public Staff's recommendation that revenue collected in excess of the rate design revenue be subject to refund would disincentivize the Company to add customers in the Pilot Program area.

Public Staff

In its verified responses to the Commission's Questions 1 and 2, the Public Staff detailed several ways in which Aqua's revenue reconciliation calculation differed from the calculations in Thill Revised Direct Exhibit 4, Scenario 2. Several of these differences were corrected in revisions to Mr. Gearhart's affidavits filed by the Company as Appendix A to its verified responses. Differences that were not corrected included the incorporation of customer growth in the Company's calculation, dividing the Revenue Excess to be refunded by the year-end 2021 bill count instead of dividing the Revenue Excess by the Actual bill count to equal a monthly "Surcredit per customer," and retaining a portion of revenues in excess of the approved revenue requirement.

The Public Staff confirmed in response to the Commission's Question 3 that witness Thill did not include customer growth in any of the three scenarios shown on Thill Direct Exhibit 4 and Thill Revised Direct Exhibit 4. The Public Staff stated that, unlike those exhibits, Aqua's Reconciliation Request incorporates customer growth by using the actual 2021 bill count to calculate the amount to be refunded to customers.

In its response to Commission Question 4, the Public Staff confirmed that witness Thill did not propose or state during the evidentiary hearing in the Sub 526 rate case that the Company would be agreeable to a revenue requirement cap. The Public Staff also pointed out that, when asked whether the Company would agree to a cap, witness Thill provided an equivocal response which began, "I would not speak for the Company with regards to that."

The Commission's Question 5 asked the Public Staff whether it considered Finding of Fact No. 44 of the Sub 526 rate case order to be "an approval of the methodology proposed by Aqua NC in the rate case for the revenue reconciliation for this specific Pilot Program." In response, the Public Staff stated that it interpreted the finding as the Commission's general approval of the reconciliation process proposed by the Company based on the record available at the time, but noted that the Company had departed from its calculations in several respects, as well as from the stated purpose of the revenue reconciliation to assure that the Company receives no more and not less than its full authorized revenue requirement, and its assertions that its methodology was based on average usage per customer.

In response to the Commission's Question 6, the Public Staff stated that it considered the Company's calculations in the Reconciliation Request to be based on average per bill revenue, not average customer use. The Public Staff noted that, whereas Thill Revised Direct Exhibit 4, Scenario 2, refunded the entire difference between actual revenues and the revenue requirement, the Company sought in its Reconciliation Request to incorporate growth and retain a portion of the difference in the amount of \$72,699.

The Commission's Question 7 asked whether the Public Staff was advocating a cap based on the revenue requirement set by the Commission in the Sub 526 rate case and, if so, whether such a reconciliation would comply with the Commission's order in that case. In response, the Public Staff confirmed that it was advocating such a cap. The Public Staff pointed out that the revenue reconciliation mitigated any risk to the Company by assuring that it would receive no less than the approved revenue requirement, and the cap is needed to assure that the Company did not receive more than the approved revenue requirement.

In response to the Commission's Question 8, the Public Staff stated that it stood by its position that the Company's proposed use of average per customer use as the basis for a revenue reconciliation calculation was inappropriate and noted that the Company's Reconciliation Request was not actually based on average use per customer, but rather on average revenue per bill. To demonstrate this, the Public Staff explained that, although

Thill Revised Direct Exhibit 4, Scenario 1 shows actual total usage equal to rate design usage and equal average use per customer, the calculation results in a surcharge due to a shift in consumption within the usage blocks and a resulting reduction in actual revenues. The Public Staff further explained that all three of the scenarios depicted in Thill Revised Direct Exhibit 4 reconcile the total difference between actual revenues and the revenue requirement.

The Commission's Question 9 asked whether the Public Staff's recommended revenue reconciliation includes customer growth since the end of the Sub 526 rate case. The Public Staff responded in the affirmative and pointed out that the Company's own Reconciliation Request includes an actual bill count greater than the rate design bill count, which made it impossible to adhere to the scenarios illustrated in Thill Revised Direct Exhibit 4.

Oral Argument

Aqua

In the oral arguments held May 16, 2022, Aqua stated that the issue of whether the revenue reconciliation should be based on average usage per customer, as the Company recommended, or on a cap based on the the revenue requirement approved in the Sub 526 rate case, as the Public Staff recommended, had been finally decided in the Sub 526 rate case. The basis for this opinion, according to Aqua, was that the Commission approved a reconciliation process "as set forth by the Company," and the Company's reconciliation process was based on average per customer usage. Aqua asserted that the Company's position was consistent with N.C.G.S. § 62-133.12(a) which allows a true-up mechanism based on average per customer usage, "which is exactly what the Company has done."

Continuing to claim that the Company's revenue reconciliation was based on average per customer usage, Aqua asserted that its recommended revenue reconciliation was better regulatory policy because it adjusted for over and under-recovery of revenues from the difference between rate design usage and actual customer usage, whereas the Public Staff's recommendation would refund revenues resulting from customer growth as opposed to conservation rates. Aqua further asserted that the Public Staff's approach would leave the Company with the costs associated with customer growth but none of the revenue resulting from that growth, thereby violating the regulatory principle of matching revenues to expenses.

Regarding the parties' differing positions on whether interest should be assessed on the refunds, Aqua stated that the Company was withdrawing its original zero percent interest recommendation, and recommending instead that the Commission impose interest on refunds at the rate of 6.81%.

Public Staff

The Public Staff asserted that what the Commission approved in the W-218, Sub 526 rate case was a revenue reconciliation process intended to assure that the Company would receive its “full authorized revenue requirement, no more and no less.” The Public Staff noted that this purpose appears in Aqua witness Thill’s prefiled direct testimony and the Company’s proposed order, and was incorporated by the Commission in its findings of fact in its final rate case order.

The Public Staff contended that the basis for the parties’ disagreement was the Company’s calculation of its Reconciliation Request in a manner that was inconsistent with the Company’s stated purpose of the reconciliation process and with the methodology set out in witness Thill’s Revised Direct Exhibit 4 to achieve that purpose.

The Public Staff noted that the Company used different values to calculate the revenue reconciliation in its Reconciliation Request than were used in Thill Revised Direct Exhibit 4 and characterized the change as a “math error.” The Public Staff also noted that that the Company’s revenue reconciliation methodology is not based on average usage per customer but rather, on the average revenue per bill. The Public Staff explained that Scenario 1 of witness Thill’s Revised Direct Exhibit 4 demonstrates this in that it shows a surcharge to reconcile the actual revenue, which was lower due to a shift in usage between rate blocks, to the revenue requirement, despite the actual average per customer usage being equal to the rate design average per customer usage.

The Public Staff also pointed out the inconsistency between the Company’s Reconciliation Request and the methodology it advocated in the Sub 526 rate case related to customer growth. Specifically, the Public Staff noted that, during the Sub 526 rate case, witness Thill testified that growth should not be included in the revenue reconciliation and that his Revised Direct Exhibit 4 shows three scenarios in which growth is not incorporated, and the actual revenue is always reconciled to the revenue requirement, thereby functioning as a revenue cap. The Public Staff also noted that, contrary to witness Thill’s testimony and exhibit, the Company’s Reconciliation Request incorporated growth in the actual bill count, and by including growth, instead of reconciling 100% of the difference between the actual revenue and the revenue requirement, the Company would retain a significant portion of that difference.

The Public Staff concluded by stating that the inconsistencies between the reconciliation process’ purpose of assuring that the Company receives its “full authorized revenue requirement, no more and no less” and the Company’s Reconciliation Request have the effect that the Company is not only protected from risk, but is also essentially guaranteed to collect revenues in excess of the authorized revenue requirement through the incorporation of growth. The Public Staff stated that, in this manner, the reconciliation process as recommended by the Company had become a mechanism to assure that the Company receives no less than its authorized revenue requirement. The Public Staff further stated that, by approving the Public Staff’s recommended revenue reconciliation, the Commission would implement a revenue reconciliation that accomplishes the stated

purpose that the Company be allowed to recover the full authorized revenue requirement, no more and no less, and is consistent with the results produced by all three of the scenarios shown in Thill Revised Direct Exhibit 4.

In response to a question from the Commission regarding increased revenue requirements due to customer growth, the Public Staff stated that the UNC Environmental Finance Center has stated that the revenue associated with customer growth exceeds the costs associated with customer growth. The Public Staff further stated that, “when dealing with a revenue reconciliation, [that] is sort of part of the trade-off. If you’re going to have this protection, then you’re going to get the revenue requirement, no more no less.”

When asked by the Commission why, if the Company was being asked to sell fewer gallons of water, “two-way mitigation” was unfair, the Public Staff responded that, if the Company’s customers use less water, the Company’s variable expenses should also decrease. The Public Staff later explained that these variable expenses included purchased power and chemicals.

When asked how much money the Public Staff would return to customers, the Public Staff stated that its recommendation had been that the Company return \$208,000, which included \$32,000 in base facility charges and \$175,000 in usage charges, but that the it was willing to change that recommendation to allow Aqua to retain the amount attributable to the base facility charges.

When asked by the Commission whether refunding customer growth revenues would undermine the goal of encouraging water conservation, the Public Staff noted that it recommended a one-time refund as opposed to multiple small refunds because it believed the difference between the bills including the credit and the next bill would be significant enough that customers would take note and reduce their consumption.

The Commission gives significant weight to the arguments set forth by the Public Staff in this proceeding and finds that the revenue reconciliation process approved in the Sub 526 rate case was intended to assure that the Company would receive its “full authorized revenue requirement, no more and no less.” The Commission further finds that Aqua’s calculation of the refund in its Reconciliation Request does not achieve this intent and is otherwise inconsistent with its testimony and exhibits in the Sub 526 rate case.

Aqua incorporated growth in its calculation of its Reconciliation Request contrary to testimony and the scenarios illustrated in witness Thill’s Exhibit 4 and Revised Exhibit 4. In the 12 months of 2021, Aqua issued 1,578 more bills for 17,039,568 more gallons than were included in the rate design billing determinants, and proposes to refund only a total of \$102,767. As a result, Aqua would retain an additional \$72,698 from consumption charges and \$32,665 from base facility charges associated with the rate design average consumption from growth in excess of the service revenue requirement. This illustrates the importance of usage and customer growth in the determination of a reconciliation

methodology intended to assure that Aqua receives its full authorized revenue requirement, no more and no less.

In addition to departing from its Sub 526 rate case testimony and exhibits with respect to the consideration of customer growth, in its Reconciliation Request, the Company shifted to a new benchmark to reconcile to instead of the authorized revenue requirement. Although the Company repeatedly stated in its filings and oral argument that its computation of the revenue reconciliation is based on average per customer usage, in actuality, it is based on average revenue per bill, which enables the Company to retain average usage revenues from new customers in excess of the revenue requirement.

In the Sub 526 rate case, the Commission did not authorize a specific service revenue requirement per bill or per customer for any of the rate divisions, or for the Pilot Program service areas. While it is possible using simple mathematics to calculate the service revenue requirement amount per bill or customer, the service revenue requirement is not determined based on number of bills or customers, or on usage. Instead, it is an annualized amount that includes reasonable operating expenses and an authorized overall rate of return using the rate base method as allowed by N.C.G.S. § 62-133. If the number of customers had remained constant but those customers had used 17,039,568 more gallons in the 12 months of 2021 than in the Sub 526 rate case, Aqua's methodology would have resulted in an excess revenue refund of \$175,465 for consumption charges. A reconciliation of the difference between actual usage revenues and the revenue requirement approved by the Commission would be consistent with the results produced by all three of the scenarios shown in Thill Revised Direct Exhibit 4.

The Commission gives little weight to Aqua's assertion that the Public Staff's recommended revenue reconciliation would violate the "matching principle" by leaving the Company with the costs associated with customer growth but none of the revenue resulting from that growth. As the Public Staff noted in oral argument, if the Company's customers use less water, then the Company's variable expenses, such as purchased power and chemicals, should also decrease. In addition, the Commission notes that the Public Staff modified its recommendation to allow the Company to retain the portion of the excess revenue from the base facility charges.

The Commission finds and concludes that the Public Staff's recommended reconciliation process achieves the intended purpose of the revenue reconciliation to assure that the Company receives its "full authorized revenue requirement, no more and no less." Accordingly, the Commission finds that it is appropriate for Aqua refund \$175,465 in usage charge revenue collected by the Company in excess of the revenue requirement approved by the Commission in the Sub 526 rate case.

The Commission agrees with Aqua and the Public Staff and finds that it is appropriate to refund the excess revenues through a one-time, flat rate bill credit instead of spreading it over the remaining nine months of the calendar year as originally contemplated. The Commission also agrees with the Public Staff that it is appropriate for Aqua to issue the one-time, flat rate bill credit as part of Aqua's next billing cycle.

Finally, the Commission agrees with the Public Staff that interest applied at a rate of 10% per annum should be added to the refund pursuant to N.C.G.S. § 62-130(e), and disagrees with Aqua’s request that interest at 6.81% be applied to this refund and any customer surcharges resulting from any future revenue under-recoveries. The Public Staff’s recommendation is consistent with the provision for interest on refunds of overcollections of WSIC/SSIC surcharges pursuant to N.C.G.S. § 62-133.12(e). That statute does not include a provision for a utility to collect interest on under-collections, and the Commission declines to grant Aqua’s request that it be permitted to do so in this docket.

IT IS, THEREFORE, ORDERED as follows:

1. That Aqua shall implement the recommended Conservation Pilot Program refund set forth herein, to be issued as part of Aqua’s next billing cycle; and
2. That Aqua shall mail to each of the affected Pilot Program customers with the next regularly scheduled customer billing a copy of this Order, and Aqua shall file the attached Certificate of Service, properly signed and notarized, not later than 45 days after the issuance of this Order.

ISSUED BY ORDER OF THE COMMISSION.

This the ____ day of _____, 2022.

NORTH CAROLINA UTILITIES COMMISSION

A. Shonta Dunston, Chief Clerk

CERTIFICATE OF SERVICE

I, _____, mailed with sufficient postage or hand delivered to all affected customers copies of the attached Order issued by the North Carolina Utilities Commission in Docket No. W-218, Sub 526A, and the Order was mailed or hand delivered by the date specified in the Order.

This the ____ day of _____, 2022.

By: _____
Signature

Name of Utility Company

The above named Applicant, _____, personally appeared before me this day and, being first duly sworn, says that the Commission's Order dated _____ issued in Docket No. W-218, Sub 526A was mailed or hand delivered to all affected customers as required by the Order.

Witness my hand and notarial seal, this the ____ day of _____, 2022.

Notary Public

Address

(SEAL) My Commission Expires: _____
Date