

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. W-218, SUB 526

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of

Application by Aqua North Carolina, Inc.,)	
202 MacKenan Court, Cary, North)	ORDER APPROVING
Carolina 27511, for Authority to Adjust)	CHANGE IN ACCOUNTING
and Increase Rates for Water and Sewer)	POLICY
Utility Service in All Service Areas in)	
North Carolina)	

BY THE COMMISSION: On October 26, 2020, in the above-captioned docket, the Commission issued an Order Approving Partial Settlement Agreement and Stipulation, Deciding Contested Issues, Granting Partial Rate Increase, and Requiring Customer Notice (Rate Order). Pursuant to Ordering Paragraph No. 11 of the Rate Order, the Commission directed Aqua North Carolina, Inc., (Aqua or the Company) to conduct a comprehensive review of its current utility plant in service (UPIS) accounting procedures and policies for determining when projects are complete, in-service, and booked to plant in-service and file the Company's findings with respect to its internal UPIS accounting practices and policies and any plans or recommendations regarding changes in those procedures and policies within 90 days of the Rate Order. The Commission further instructed Aqua to consult with the Public Staff in that process and to work collaboratively with the Public Staff regarding any proposed changes.

Moreover, the Commission determined that Aqua's comprehensive review of its UPIS procedures and policies should include an analysis of whether the Company could utilize the functionality provided by PowerPlan¹ referred to as the Completed Construction but Not Classified (CCNC) or "Account 106" function, discussed at the expert witness hearing by Public Staff witness Charles Junis and Aqua witness Edward Thill, which would allow Aqua to begin depreciation on completed construction projects based on the in-service date and prior to project unitization² in the fixed asset management system. Aqua's current capitalization process requires that all project costs must be compiled and unitized before depreciation begins. Aqua witness Thill noted at the expert witness hearing that Aqua's current use of the one-half year convention for calculating depreciation expense as allowed by Generally Accepted Accounting Principles eliminates the impact resulting from short delays between in-service and unitization dates throughout the year. However, witness Thill commented that Aqua's current process does have an

¹ The fixed asset management system utilized by Aqua.

² Aqua witness Thill explained that project unitization occurs when the asset is removed from construction work in progress and is added to utility plant in service, and depreciation begins.

impact on depreciation expense and accumulated depreciation for unitization of assets placed in service in one year and unitized in the following year. Witnesses Junis and Thill contended that the utilization of the CCNC functionality, if used by Aqua, would help address this concern.

On January 25, 2021, Aqua filed its Accounting Policy Review - Utility Plant in Service (UPIS Policy Review). In that filing, Aqua stated that, working collaboratively with the Public Staff, Aqua has completed its comprehensive review of its UPIS procedures and policies and determined that it is reasonable and practicable for the Company to utilize the CCNC functionality provided by PowerPlan. Aqua stated that the benefits of utilizing the CCNC functionality will enable (1) the development and use of a consistent and manageable timeline that provides for a project to be placed in service in the month it becomes used and useful, (2) the depreciation on costs recorded to start once the asset is placed in service, and (3) the termination of allowance for funds used during construction (AFUDC) once the asset is placed in service. Aqua further stated that this practice is consistent with Duke Energy Carolina, LLC's (DEC's) use of this functionality as well as Aqua America's use in six other states. Aqua commented that the implementation of the CCNC functionality is not anticipated to be intricate or overly complicated. Finally, Aqua stated that the Public Staff agrees with the proposed process recommendations outlined in its UPIS Policy Review and set forth below.

Aqua proposes, upon Commission approval, to modify its current processes to incorporate the use of the CCNC functionality in PowerPlan and to utilize the following processes beginning April 1, 2021:

- Aqua's current Construction Work in Progress (CWIP) report generation and operations review process will remain the same as follows:
 - Accounting will run a monthly open report that includes all current open projects.
 - The report will be sent to the operations managers and projects managers for their review of CWIP balances.
 - The operations managers will review and submit updates of the project's status to Accounting within two weeks so Accounting may update PowerPlan accordingly.
- Aqua will begin to utilize PowerPlan's automated CCNC process (Account 106) for projects that are placed in-service, but not yet unitized, after reviewing the monthly CWIP report generation and operations review process.
 - Once a project is designated as in-service by the operations manager or project manager and as part of their monthly review, the project will be identified as in-service in PowerPlan. The recorded project costs will then be moved to Account 106 via an automated process during month end

close, at which time the accrual of AFUDC will stop and depreciation on the project costs will begin.

- The project will remain open in Account 106 to allow for additional project related costs to be recorded as they are received. These additional costs will begin depreciating as they are added to the project's balance and while in Account 106.
- When converting to PowerPlan's CCNC process, Aqua will convert to a monthly depreciation protocol and will cease using the half year depreciation convention for projects when put into service.³
- All projects that are identified as in-service will be reviewed monthly to determine if all project costs have been received and the projects are ready to be unitized and placed in UPIS.
 - If a project is in-service and not ready to be unitized, the project will remain in Account 106 for review in the next month.
 - If a project is ready to be unitized, PowerPlan will use the current month as the date for placing the project in UPIS. The completion date and as-built form will be updated in PowerPlan, which will automatically move the project from Account 106 to UPIS (Account 101).

Aqua stated that a sample of Aqua's utilization of PowerPlan's CCNC process will be available for review by the Public Staff in the latter half of 2021, if the Commission approves the proposed changes and Aqua has the process in production by April 1, 2021.

Based upon the foregoing, the Commission concludes that Aqua should incorporate the accounting processes it proposes in its UPIS Policy Review to utilize the CCNC functionality provided by PowerPlan, including converting from its current use of the one half year convention for calculating depreciation expense in the year a project is placed in-service to a monthly depreciation protocol for projects placed in-service under the CCNC process. Further, the Public Staff should review a representative sample of Aqua's utilization of PowerPlan's CCNC functionality once sufficient information becomes available and file a report with the Commission concerning its findings.

³ Aqua currently uses the half year convention, meaning, when placed in-service, the project receives half year of depreciation for the year in which it is placed in-service, regardless of the in-service date of that year. The new monthly depreciation will allow each month of additional charges to begin depreciation prospectively, as received. For example, if a project is placed in Account 106 in April, depreciation begins on that balance.

IT IS, THEREFORE, ORDERED as follows:

1. That Aqua North Carolina, Inc., is authorized to incorporate the accounting processes to utilize the Completed Construction but Not Classified (CCNC) functionality provided by PowerPlan, including converting from its current use of the one half year convention for calculating depreciation expense in the year a project is placed in-service to a monthly depreciation protocol for projects placed in-service under the CCNC process; and

2. That the Public Staff shall review a representative sample of Aqua's modified UPIS accounting procedures and policies as outlined in Aqua's UPIS Policy Review, which was filed on January 25, 2021 and approved herein and shall file a report of its findings by Monday, January 31, 2022.

ISSUED BY ORDER OF THE COMMISSION.

This the 30th day of March, 2021.

NORTH CAROLINA UTILITIES COMMISSION

A handwritten signature in black ink that reads "Kimberley A. Campbell". The signature is written in a cursive, flowing style.

Kimberley A. Campbell, Chief Clerk

Commissioner Kimberly W. Duffley did not participate in this decision.