




An  Essential Utilities Company

January 27, 2021

Ms. Rachel Chapman

Dear Ms. Chapman:

I write to respond to your complaints and concerns about the recent rate Order issued by the North Carolina Utilities Commission ("Commission" or "NCUC") to Aqua North Carolina, Inc. ("Aqua" or "Company"), which changed the charges for sewer service provided by Aqua to its customers in the Park South and Parkway Crossing subdivisions. Aqua understands that the rate increase is significant and the Company wishes to explain the rationale for it and the rigorous process by which the Company's NCUC-authorized rates are decided.

These two communities are "purchased sewer" customers of Aqua. Aqua owns the sewer collection system and transfers the wastewater to the City of Charlotte for treatment. Charges for the treatment service performed by the City of Charlotte are billed to Aqua, and these charges are passed through to the Company's customers in the two systems—but only after rigorous regulatory review. In order for the Company to pass through the Charlotte charges to Aqua customers, there are three requirements. First, Aqua petitions the NCUC for cost recovery and provides proof of the charges imposed by Charlotte; second, the Public Staff (your primary consumer advocate in these matters) carefully reviews the petition; and third—assuming all is in order—approval is given, after review by the Commission.

The rate that you are charged for your sewer service has two primary components. The first is a charge to reflect Aqua's investment in and operation of the collection system and process; this is called the "Base Facilities Charge" or

BFC, and it must be approved by the Commission in a general rate case.¹ The second component of the charge is the City of Charlotte's volumetric sewer rate, per thousand gallons used, which is passed through to customers, as explained above. The level of these volumetric charges can be set in a general rate case or in a separate proceeding, depending on the timing of any rate increases by Charlotte.

Basically, in this most recent rate case and as a result of application by Aqua—with evidence from the Company and other parties presented and thoroughly examined by the NCUC, the Public Staff, and the Attorney General's Office—your Base Facilities Charge increased and your volumetric costs per 1000 gallons of usage (the sewage treatment charges imposed by the City of Charlotte) stayed the same. Therefore, your total rates increased as a function of the recalculation by the NCUC of the charges associated with the costs of the infrastructure owned by Aqua, which is required to provide service. A more detailed explanation follows.

The NCUC Order in Aqua's most recent rate case was issued in Docket No. W-218, Sub 526 on October 26, 2020. As indicated, Aqua's existing sewer rate design was modified to increase the Base Facilities Charge. In the NCUC's rate design decision, the corresponding volumetric sewer rates for certain classes of sewer customers was decreased. However, since the Park South and Parkway Crossing customers' volumetric sewer rates are a pass-through of the City of Charlotte's charges, your volumetric rates did not reduce. Thus, application of the updated rate design with a higher Base Facilities Charge resulted in the increase you are experiencing. It must be noted that you were previously paying less than the average Aqua sewer customer on a monthly basis. However, you are now paying more due to application of the updated volumetric rate design, combined with the fact that your volumetric charges are driven by the City of Charlotte's rates. These NCUC-authorized adjustments to rate design are not uncommon, as the Commission

¹ A new BFC was approved by the Commission in the Company's recent rate case, Docket No. W-218, Sub 526, by Order of October 26, 2020.

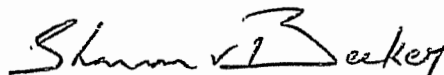
and the parties to rate cases constantly try to address and decide issues concerning the allocation of costs of service.

Aqua has reviewed the complaints received from customers, including yours, and attempted to find a near-term, alternative solution. The Company initiated conversations with the rate case consumer advocates (the Public Staff and the Attorney General) and proposed an alternative solution with the goal of providing some relief for you between now and the next rate case, while maintaining Aqua's required level of revenues. Despite good faith efforts, the parties were unable to identify a mutually-agreeable, proposed alternative to the recently-approved existing rates.

I hope that this letter helps to explain the matter to your satisfaction, although the Company understands that this response may not alleviate your opposition to the newly-authorized sewer rates. Recognizing that no one likes rate increases, Aqua's obligation to invest significant amounts of money to provide quality service in North Carolina requires that it recover its investment and a reasonable return, if it proves that it has operated in a prudent manner.

Aqua values you as a customer and remains committed to providing you with reliable, quality utility service on an ongoing basis.

Sincerely,



Shannon V. Becker
President, Aqua North Carolina, Inc.

c: Kimberley Campbell, Chief Clerk, North Carolina Utilities Commission
Megan Jost, Staff Attorney, Public Staff
Margaret Force, Assistant Attorney General, Attorney General's Office