

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 Authority to)
Implement Water and Sewer System)
Improvement Surcharge Rate)
Adjustments Pursuant to N.C. Gen. Stat.)
§ 62-133.12)

NOTICE OF PUBLIC STAFF'S
PLAN TO PRESENT COMMENTS
AND RECOMMENDATIONS AT
THE COMMISSION'S JUNE 20,
2022, REGULAR STAFF
CONFERENCE

NOW COMES THE PUBLIC STAFF – North Carolina Utilities Commission (Public Staff), by and through its Executive Director, Christopher J. Ayers, and notifies the Commission and Aqua North Carolina, Inc. (Aqua) that the Public Staff plans to present its comments and recommendations regarding Aqua's April 27, 2022 Application for Approval of Water and Sewer System Improvement Charge Rate Adjustments Pursuant to G. S. 62-133.12 (Application) at the Commission's June 20, 2022, Regular Staff Conference.

This Notice is provided pursuant to Commission Rules R7-39(f) and R10-26(f).

Aqua Application

By its Application, Aqua requests authority to impose the following Water System Improvement Charge (WSIC) and Sewer System Improvement Charge (SSIC) percentages effective for service rendered on and after July 1, 2022:

	Previously Approved WSIC/SSIC Percentage	Net Proposed Change To WSIC/SSIC Percentage	Cumulative WSIC/SSIC Percentage
Uniform water	3.35%	-0.03%	3.32%
Uniform sewer	3.26%	-0.05%	3.21%
Fairways water	5.25%	-0.13%	5.12%
Fairways sewer	0.67%	-0.01%	0.66%
Brookwood water	0.95%	-0.01%	0.94%

Aqua's WSIC and SSIC percentages were reset to zero as of October 26, 2020, the effective date of Aqua's new base rates in its general rate case in Docket No. W-218, Sub 526 (Sub 526 Rate Case). This is Aqua's fourth filing to implement charges under the WSIC and SSIC mechanism since the conclusion of the Sub 526 Rate Case.

The WSIC and SSIC percentages above do not include the Experience Modification Factor (EMF) adjustments from the 2021 annual WSIC and SSIC revenue review, which will go into effect on July 1, 2022. The impact of the 2021 EMF on Aqua's requested WSIC and SSIC percentages is as follows:

	WSIC/SSIC Percentage	2021 Experience Modification Factor	Cumulative WSIC/SSIC Percentage
Uniform water	3.32%	0.49%	3.81%
Uniform sewer	3.21%	0.89%	4.10%
Fairways water	5.12%	1.87%	6.99%
Fairways sewer	0.66%	0.18%	0.84%
Brookwood water	0.94%	0.24%	1.18%

The cumulative WSIC and SSIC revenue requirements after updates of the previously approved WSIC and SSIC revenue requirements for the second year are as follows:

	Previously Approved WSIC/SSIC Revenue Requirement	Net Change to WSIC/SSIC Revenue Requirement	Cumulative WSIC/SSIC Revenue Requirement
Uniform water	\$1,343,492	(\$12,909)	\$1,330,583
Uniform sewer	\$568,741	(\$9,062)	\$559,679
Fairways water	\$66,351	(\$1,615)	\$64,736
Fairways sewer	\$15,514	(\$286)	\$15,228
Brookwood water	\$60,740	(\$903)	\$59,837

Pursuant to N.C. Gen. Stat. § 62-133.12(g) amended by Session Law 2021-149, the cumulative WSIC and SSIC percentages are capped at 7.5% of total annual service revenues approved by the Commission in the Sub 526 Rate Case effective September 10, 2021. This results in the following maximum revenue requirements for water and sewer operations:

	Sub 526 Annual Service Revenues	Maximum WSIC/SSIC Percentage	Maximum WSIC/SSIC Revenue Requirement
Uniform water	\$38,546,489	x 7.5% =	\$2,890,987
Uniform sewer	\$16,426,070	x 7.5% =	\$1,231,955
Fairways water	\$1,159,708	x 7.5% =	\$86,978
Fairways sewer	\$2,152,586	x 7.5% =	\$161,444
Brookwood water	\$6,433,919	x 7.5% =	\$482,544

As shown above, Aqua's proposed WSIC and SSIC revenue requirements do not exceed the maximum WSIC and SSIC revenue requirements for water and sewer operations.

Aqua's cumulative WSIC and SSIC revenue requirements are comprised of the updates to the previously approved WSIC and SSIC revenue requirements that became effective on January 1, 2021, July 1, 2021, and January 1, 2022. The updates include the anticipated non-WSIC and non-SSIC annual service revenues based on Aqua's calendar year 2022 projection.

Aqua's proposed cumulative WSIC and SSIC percentages decreased compared with the previously approved WSIC and SSIC percentages. The reason for the decrease is that Aqua updated the Year-2 accumulated depreciation (AD) and accumulated deferred income tax (ADIT). The absolute value of AD and ADIT increased, the net plant investment decreased, the annual WSIC and SSIC revenue requirement decreased; thus, the updated WSIC and SSIC percentages decreased.

Public Staff Review

In its Order adopting Commission Rules R7-39 and R10-26 issued on June 6, 2014, in Docket No. W-100, Sub 54, the Commission stated that the Public Staff is to review all system improvement projects proposed for recovery for eligibility and reasonableness prior to making its recommendations to the Commission on WSIC or SSIC rate adjustments. The Commission further stated that any WSIC or SSIC rate adjustments outside of a general rate case will be allowed to become

effective, but not unconditionally approved, and may be disallowed in the next general rate case proceeding if found to be unreasonable or imprudent upon review of the Public Staff and the Commission.

The Public Staff carefully reviewed Aqua's updated WSIC and SSIC revenue requirement calculation for the period July 1, 2022, through June 30, 2023. Based on this review, the Public Staff recommends the following adjustments to Aqua Sewer SSIC revenue requirement:

1) Correction to plant in service – One system improvement project closed in 2020 in the amount of \$28,810 was misclassified in Utility Account 354200. The Public Staff reclassified this amount from Utility Account 354200 to Utility Account 371000. In addition, one system improvement project closed in 2021 in Utility Account 371000 should have been in the amount of \$144,221 instead of \$144,573 as shown in the documentation supporting the Application. The Public Staff corrected this amount. As a result, the total plant in service closed in Q4 2020 and Q1 2021 is corrected to \$4,801,406.

2) Correction to average accumulated depreciation (AAD) – As a result of the correction to plant in service, the annual depreciation expense changed from \$89,986 to \$91,495, and the beginning AD as of June 30, 2021, changed from \$54,535 to \$56,825. Therefore, the AAD for the period from July 1, 2022, through June 30, 2023, changed from \$189,514 to \$194,068.

3) Correction to average accumulated deferred income taxes (ADIT) – As a result of the correction to plant in service, the 2021 plant additions changed

from \$4,652,264 to \$4,651,912. The repair tax additions was corrected from \$195,240 to \$266,391. As a result of these changes, the average tax depreciation reserve for the period from July 1, 2022, through June 30, 2023, changed from \$701,295 to \$766,726. Therefore, taking into account the change in ADD from Item 2 above, the average ADIT changed from \$117,582 to \$131,568.

4) Correction to annual SSIC revenue requirement – Taking into account the corrections in Items 1 through 3 above, the annual SSIC revenue requirement changed from \$459,456 to \$459,416.

The Company agrees with the four recommended adjustments described above. Because the decrease in the overall revenue requirement for Aqua Sewer operations is immaterial, the proposed SSIC percentage for Aqua Sewer operations does not change based on the projected 2022 non-SSIC revenue. The Public Staff will provide the Commission with revised WSIC and SSIC revenue requirements and percentages based on the recommended adjustments listed above.

Public Staff Recommendation

The Public Staff plans to present this matter at the Commission's June 20, 2022, Regular Staff Conference and to recommend that Aqua be allowed to implement the Public Staff's recommended WSIC and SSIC percentages effective for service rendered on or after July 1, 2022, subject to true-up.

Respectfully submitted this the 3rd day of June, 2022.

PUBLIC STAFF
Christopher J. Ayers
Executive Director

Lucy E. Edmondson
Interim Chief Counsel

Electronically submitted
/s/ Megan Jost
Staff Attorney

4326 Mail Service Center
Raleigh, North Carolina 27699-4300
Telephone: (919) 733-0977
megan.jost@psncuc.nc.gov

CERTIFICATE OF SERVICE

I hereby certify that I served the foregoing Notice on all parties of record, or their attorneys, or both, by United States mail, first class or better; by hand delivery; or by means of facsimile or electronic delivery upon agreement of the receiving party.

This the 3rd day of June, 2022.

Electronically submitted
/s/ Megan Jost