

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                 ) VERIFIED RESPONSES  
27511, for Approval of Annual Adjustment to                ) OF THE PUBLIC STAFF  
Conservation Pilot Program Revenue                         )  
Reconciliation Charge/Credit                                     )

NOW COMES THE PUBLIC STAFF – North Carolina Utilities Commission, by and through its Executive Director, Christopher J. Ayers, and respectfully submits for the Commission’s consideration the following Verified Responses addressing the questions presented in the Commission’s Order Scheduling Oral Argument and Requiring Verified Responses by the Parties issued in this docket on May 4, 2022.

Background

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 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 a response to the Public Staff's Notice (Response).

On April 13, 2022, the agenda for the April 18, 2022 Regular Staff Conference was published, including the Public Staff's proposed order directing Aqua to implement a Conservation Pilot Program refund consistent with the recommendations the Public Staff made in its Notice.

Prior to the April 18, 2022 Regular Staff Conference, the Commission notified the parties that the Reconciliation Request matter would be removed from the agenda, and that the Commission would issue questions to be answered by the parties.

On May 4, 2022, the Commission issued its Order Scheduling Oral Argument and Requiring Verified Responses by the Parties, directing the parties to file verified responses to nine questions no later than May 11, 2022, and scheduling oral argument on May 16, 2022.

#### Responses to Commission Questions

**1. On page 6 of Aqua NC's April 8, 2022 filing, the second to the last paragraph states, "[t]he Company calculates the total refund amount to be \$102,766.50 (\$3,786,155 block revenue from the rate design times 2.7%)."** That math is incorrect. Is the correct calculation  $\$3,786,155 \times 2.7\% = \$102,226.19$  which would then be divided by the year-end 2021 bill count of 7,059 to equal a one-time refund of \$14.48 per customer before interest, if

**any? Would this calculation to determine the amount to be refunded to customers be completely consistent with the calculation per Thill Revised Exhibit 4, Scenario 2? Explain.**

Public Staff Response: As a matter of fact,  $\$3,786,155 \times 2.7\% = \$102,226.19$ . However, that calculation is inconsistent with the calculation per Thill Revised Exhibit 4, Scenario 2 in several respects. First,  $\$3,786,155 \times 2.7\% = \$102,226.19$  uses a different rounding convention than Thill Revised Direct Exhibit 4, which rounded to two decimal places. Using the same rounding convention as Thill Revised Direct Exhibit 4, the Revenue Excess calculation would be  $\$3,786,155 \times 2.66\% = \$100,711.72$ . Second, dividing the Revenue Excess to be refunded by the year-end 2021 bill count of 7,059 to equal a one-time refund of \$14.27 per customer before interest is inconsistent with the calculation per Thill Revised Direct Exhibit 4, Scenario 2 because that calculation divided the Revenue Excess (in this case, \$100,711.72) by the Actual bill count (in this case, 83,550) to equal a monthly “Surcredit per customer” (actually, a Surcredit per actual bill because of growth included by Aqua) of \$1.21 before interest. Third,  $\$3,786,155 \times 2.7\% = \$102,226.19$  is inconsistent with the calculation per Thill Revised Direct Exhibit 4, Scenario 2 because growth was not accounted for in Thill Revised Direct Exhibit 4. The bill count in each of the three scenarios set out in Thill Direct Exhibit 4 and Thill Revised Direct Exhibit 4 was constant at 79,200.

Further, the Company’s description of the calculation as, “the total refund amount to be \$102,766.50 ( $\$3,786,155$  block revenue from the rate design times 2.7%,” is inconsistent with the calculation used in Appendix A to the Company’s

Reconciliation Request  $((E)*(G) = 83,550 \times \$1.23 = 102,766.50)$ . As shown above, both the Company's description of the calculation in its Response and the actual calculation used in Appendix A are inconsistent with the Company's statement on page six of its Response that "[t]he methodology the Company used to calculate its proposed refund of \$102,766.50 in this case follows and is entirely consistent with the methodology reflected in Thill Revised Direct Exhibit 4, Scenario 2."

**2. Based on the Excel files Aqua NC provided supporting the Pilot Program revenue reconciliation, the refund calculation of \$102,766.50 is calculated as \$1.23 times 83,550 actual 2021 bills. However, as previously noted, this calculation does not appear to be completely consistent with Thill Revised Exhibit 4, Scenario 2. It appears that witness Thill calculated the amount of the refund by applying the calculated percentage (2.7%) to the authorized volumetric amount of revenue for the Pilot Program per the rate case (\$3,786,155). Explain how the \$102,766.50 refund amount is based on the calculation method witness Thill proposed in the Sub 526 rate case for the Pilot Program revenue reconciliation.**

Public Staff Response: The \$102,766.50 refund amount is not consistent with the calculation method witness Thill proposed in the Sub 526 rate case for the Pilot Program revenue reconciliation as described in the response to Question 1 above. Unlike the calculation method witness Thill proposed in the Sub 526 rate case, in its Reconciliation Request Aqua has 1) accounted for customer growth, 2) retained a portion of revenues in excess of the revenue requirement, 3) modified the

calculation of the Revenue Excess from (A)\*(H) to (E)\*(G), and 4) proposed the refund as a one-time credit instead of a monthly credit over 12 months.

**3. Is it true that Aqua NC witness Thill does not include customer growth in any of the three revenue reconciliation scenarios presented in Thill Direct Exhibit 4 or Thill Revised Direct Exhibit 4? Would use of the 83,550 actual 2021 bills in the calculation of the amount to be refunded to customers incorporate customer growth into the calculation since the 83,550 actual 2021 bills includes new bills?**

Public Staff Response: It is true that Aqua witness Thill did not include customer growth in any of the three revenue reconciliation scenarios presented in Thill Direct Exhibit 4 or Thill Revised Direct Exhibit 4. For each of the three scenarios presented in those exhibits, the “bill count in rate design” and “actual bill count” were identical. Unlike Thill Direct Exhibit 4 and Thill Revised Direct Exhibit 4, Aqua’s Reconciliation Request incorporates customer growth by using 83,550 actual 2021 bills in the calculation of the amount to be refunded to customers. The bill count in rate design of 81,972 is representative of 6,831 end of period customers, while the bill count of 83,550 includes an additional 1,578 bills, for an average of 6,963 customers per month, and the year-end 2021 bill count is 7,059.

**4. During the Sub 526 evidentiary hearing, did witness Thill propose or state that Aqua NC would be agreeable to a revenue requirement cap with respect to this Pilot Program and the annual Pilot Program revenue reconciliation?**

Public Staff Response: Witness Thill did not propose or state during the evidentiary hearing that the Company would be agreeable to a revenue requirement cap. However, he also did not definitively testify that the Company would not be agreeable to such a cap.

During the evidentiary hearing, Commissioner Brown-Bland asked witness Thill the following question:

Yesterday you heard the question to Witness Junis about the pilot program being capped to the revenue requirement and possibly excluding a portion of the organic customer growth. The Public Staff as I understood it said they would be good with that concept. Is that the same with the Company?

Witness Thill's equivocal response, which spans approximately three pages of the transcript, begins, "I would not speak for the Company with regards to that. I personally don't agree with that . . . .," and concludes, "I don't think the Company would agree with that."

**5. Finding of Fact No. 44 of the Sub 526 rate case order states that "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.G.S. § 62-133.12A will be calculated." What is the Public Staff's viewpoint on this statement? Does the Public Staff consider this statement from the Commission's 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? Explain.**

Public Staff Response: Although Finding of Fact No. 44 does not state it explicitly, the Public Staff interprets the finding as the Commission's general approval of the revenue reconciliation proposed by the Company based on the record available at the time, which included only theoretical applications of the Company's methodology. However, now that the Company has attempted to put it into practice, it is apparent that the methodology does not address all the possible scenarios that could arise under real world conditions. This is evidenced by Aqua's departures in its Reconciliation Request from the methodology it proposed in the Sub 526 rate case, including accounting for customer growth, retaining a portion of revenues in excess of the revenue requirement, modifying the calculation of the Revenue Excess from (A)\*(H) to (E)\*(G), and proposing to return the refund as a one-time credit instead of a monthly credit over 12 months. In addition to departing from the methodology it proposed in the Sub 526 rate case in its Reconciliation Request, the Company has also departed from the stated purpose of the revenue reconciliation to assure that the Company will receive no more and no less than its full authorized revenue requirement, and the Company's assertion that the methodology is based on average usage per customer.

**6. Do the parties consider the Company's revenue reconciliation process for this first annual reconciliation of the Pilot Program to be centered on calculations based on average per customer use? Is this**

**calculation the same or similar to the revenue reconciliation calculation the Company proposed in its Sub 526 rate case when the Pilot Program was approved by the Commission?**

Public Staff Response: The Public Staff does not consider the Company's calculations in the Reconciliation Request to be based on average customer use, but rather, on average per bill revenue. The Company's revenue reconciliation process in this first annual reconciliation of the Pilot Program has significantly diverged from the process proposed in the Sub 526 rate case by witness Thill. Thill Revised Direct Exhibit 4, Scenario 2 refunded the entire difference between actual revenues and the revenue requirement. The Company now seeks to incorporate growth and retain a portion of that difference in the amount of \$72,699. This is inconsistent with the Company's stated intent, set out in Finding of Fact 33 of the Sub 526 rate case order, that "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."

**7. In its calculation of this Pilot Program revenue reconciliation, is the Public Staff advocating for a revenue cap based upon the revenue requirement set by the Commission in the Sub 526 rate case? If yes, would such reconciliation be in compliance with the Commission's Sub 526 Order? Explain.**

Public Staff Response: Yes, the Public Staff is advocating for a revenue cap based upon the revenue requirement set by the Commission in the Sub 526 rate case.



The Company is proposing to extrapolate the revenue requirement to a per bill amount which would be applied to all customers, including new customers added since the rate case. New customers do not have the experience and context of rates and monthly bills prior to implementation of the increasing block rates. Therefore, these customers are likely less sensitive to the pricing signal intended to be sent by higher rates for higher water consumption. Under normal circumstances, it is expected that the Company will get the benefit of additional revenue produced by growth. In this case, any risk to the Company has been mitigated by the revenue reconciliation which assures that the Company will receive no less than its approved revenue requirement. The cap is needed to assure that it will receive no more.

**8. Does the Public Staff maintain its disagreement presented in the Sub 526 rate case with the use of a revenue reconciliation calculation based on average use per customer as proposed by the Company in the Sub 526 rate case? Explain.**

Public Staff Response: While the Public Staff stands by its position that the use of a revenue reconciliation calculation based on average use per customer as proposed by the Company in the Sub 526 rate case is inappropriate, the Public Staff's recommendation on the Company's Reconciliation Request is appropriate given that the Company's revenue reconciliation calculation is not based on average use per customer, but instead on average revenue per bill. This is evident in Thill Revised Direct Exhibit 4, Scenario 1. Although that scenario shows actual total usage and average usage per customer equal to rate design usage, a

surcharge is recommended due to a shift in consumption within the blocks and a resulting reduction in actual revenues. In fact, all three of the scenarios shown on Thill Revised Direct Exhibit 4 reconcile the entire difference between actual revenues and the revenue requirement, as opposed to average usage per customer.

**9. Does the Public Staff include revenue/usage related to customer growth since the end of Sub 526 rate case in its recommended revenue reconciliation calculation? Explain.**

Public Staff Response: Yes, like the Company, the Public Staff includes revenue/usage related to customer growth since the end of Sub 526 rate case in its recommended revenue reconciliation calculation. Witness Thill's Direct Exhibit 4 and Revised Direct Exhibit 4 state that actual bill counts are used. However, the figures used did not demonstrate how a change in actual bill count from the bill count used in rate design would impact the refund calculation. The Company's Reconciliation Request is based on real world data, including an actual bill count that is higher than the bill count in rate design which makes it impossible to adhere to the revenue reconciliation calculation scenarios set out in witness Thill's exhibits.

WHEREFORE, the Public Staff respectfully requests that the Commission consider these Verified Responses in making its determinations in this docket.

This the 11th day of May, 2022.

PUBLIC STAFF  
Christopher J. Ayers  
Executive Director

Dianna W. Downey  
Chief Counsel

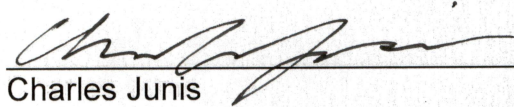
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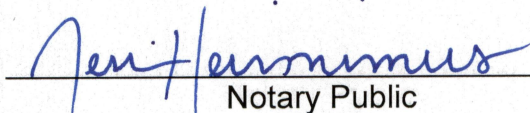
VERIFICATION

STATE OF NORTH CAROLINA )  
 )  
COUNTY OF WAKE )

CHARLES JUNIS, first being duly sworn, deposes and says that he is the Director of the Water, Sewer, and Telephone Division, Public Staff – North Carolina Utilities Commission, that as such, he has read the foregoing Verified Responses of the Public Staff and knows the contents thereof; that the same are true of his own knowledge except as to those matters stated therein on information and belief, and as to those he believes them to be true.

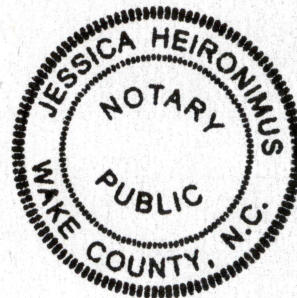
  
Charles Junis

Sworn to and subscribed before me,  
this 11th day of May, 2022.

  
Notary Public

Jessica Heironimus

My Commission Expires: May 10, 2023



CERTIFICATE OF SERVICE

I certify that a copy of these Verified Responses has been served 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 11th day of May, 2022.

Electronically submitted  
/s/ Megan Jost