

	Previously Approved WSIC/SSIC Percentage	Net Proposed Change To WSIC/SSIC Percentage	Cumulative WSIC/SSIC Percentage
Uniform water	1.70%	1.66%	3.36%
Uniform sewer	3.06%	0.20%	3.26%
Fairways water	5.00%	0.25%	5.25%
Fairways sewer	0.55%	0.12%	0.67%
Brookwood water	0.60%	0.35%	0.95%

Aqua NC's WSIC and SSIC percentages were reset to zero as of October 26, 2020, the effective date of Aqua NC's new base rates in its general rate case in Docket No. W-218, Sub 526 (Sub 526 Rate Case). This is Aqua NC's third 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 2020 annual WSIC and SSIC revenue review which went into effect on July 1, 2021. The impact of the 2020 EMF on Aqua NC's requested WSIC and SSIC percentages is as follows:

	WSIC/SSIC Percentage	2020 Experience Modification Factor	Cumulative WSIC/SSIC Percentage
Uniform water	3.36%	-0.040%	3.320%
Uniform sewer	3.26%	0.005%	3.265%
Fairways water	5.25%	0.100%	5.350%
Fairways sewer	0.67%	0.040%	0.710%
Brookwood water	0.95%	0.030%	0.980%

The cumulative WSIC and SSIC revenue requirements after Aqua NC's proposed increases/decreases are as follows:

	Previously Approved WSIC/SSIC Revenue Requirement	Net Change to WSIC/SSIC Revenue Requirement	Cumulative WSIC/SSIC Revenue Requirement
Uniform water	\$651,586	\$698,562	\$1,350,148
Uniform sewer	\$529,673	\$39,067	\$568,740
Fairways water	\$66,351	\$0	\$66,351
Fairways sewer	\$11,988	\$3,526	\$15,514
Brookwood water	\$38,476	\$22,270	\$60,746

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% effective as of September 10, 2021, instead of the original 5%, of total annual service revenues approved by the Commission in the Sub 526 Rate Case, resulting 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 NC's proposed WSIC and SSIC revenue requirements do not exceed the maximum WSIC and SSIC revenue requirements for water and sewer operations.

Aqua NC's additional WSIC and SSIC revenue requirements are comprised of the calculated WSIC and SSIC revenue requirements for the current review

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

Aqua NC is proposing the above increases in the WSIC and SSIC in order to recover the incremental depreciation and capital costs associated with the following WSIC and SSIC projects completed and placed in service from April 1, 2021, through September 30, 2021:

Main installation	\$	56,000
Meters and/or appurtenances replacement		3,209,970
Primary drinking standards		331,479
Secondary drinking water standard		2,879,150
Pumping equipment replacement		15,005
Distribution valves replacement		17,309
Total WSIC plant additions	\$	<u>6,508,913</u>
Pumping equipment replacement	\$	181,465
Pumping equipment and wastewater treatment plants replacement		139,265
Total SSIC plant additions	\$	<u>320,730</u>

Under N.C.G.S. § 62-133.12(c), eligible water system improvements include “equipment and infrastructure installed at the direction of the Commission to comply with secondary drinking water standards.” During the six months ended September 30, 2021, Aqua NC installed seven iron and manganese filter projects in the following subdivisions at a total cost of \$2,879,150:

WSIC Whitetail Farm FeMn Filter, Well #1	\$ 236,325
WSIC Shannon Wds FeMn Filter, Well #4	410,279
WSIC Carlyle Manor FeMn Filter, Well #1 and Well #7	976,817
WSIC Enclave BCB FeMn Filter P75, Well #18	288,084
WSIC High Meadows Fe/Mn Filter, Well #2 and Well #3	303,710
WSIC Royal Senter FeMn Fitr, Well #2 and Well #3	383,722
WSIC Royal Senter Rdg #1 FeMn Fitr, Well #1	280,213
Total FeMn filter projects	<u>\$ 2,879,150</u>

The Commission authorized the implementation of these filtration projects in its Orders Approving Secondary Water Quality Improvement Projects issued on April 3, 2020, in Docket No. W-218, Sub 497A, and on January 8, 2021, March 16, 2021, and September 7, 2021, in Docket No. W-218, Sub 526A.¹

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.

¹ The WSIC Blue Water Cove OCCT project was authorized by the Commission for implementation of a filtration project to address secondary water quality, however, the system removes iron and adjusts pH to maintain primary water quality compliance for lead.

The Public Staff has carefully reviewed Aqua NC's WSIC and SSIC improvements, including construction work in progress ledgers and transactions, invoices, work orders, engineering certifications, and other accounting records.² Based on this review, the Public Staff recommends the following adjustments to Aqua NC's WSIC and SSIC revenue requirements:

1) Correction to accumulated deferred income tax (ADIT) – The ADIT calculation for Brookwood LaGrange Water was inadvertently understated due to the exclusion of Utility Account 346000 Communication Equipment in the calculation of ADIT. The Public Staff included the costs for Utility Account 34600 in the calculation of ADIT. This adjustment does not change the revenue requirement and percentages required by the Company. The Company agrees with this adjustment.

2) Updates to Allowance for Funds Used During Construction (AFUDC) interest rates – The Company elected to not change the historical monthly interest rate, which was used to calculate AFUDC because there been no significant changes from the quarterly interest rate calculation reports. The Public Staff has carefully reviewed these reports and agrees that there were no significant interest rate changes from January 1, 2020 through September 30, 2021. However, the Public Staff believes that it is more accurate and appropriate to apply the actual interest rates to calculate AFUDC because the actual interest rates are available

² The Public Staff continues to review certain projects and associated documentation and is awaiting responses to outstanding data requests. Any additional recommendations or changes will be communicated to Aqua NC prior to incorporation in the Public Staff's agenda item and proposed order.

from these reports. Therefore, the Public Staff updated monthly interest rate in each project closed month to the actual rates according to the supporting documentation provided by the Company.

3) Reclassification of monthly project charges – For some CWIP projects, the Company recorded charges, including allocation from the parent company, in one month and then reversed these charges in a subsequent month. The Public Staff believes that recording charges in one month and reversing them in a subsequent month overstates the calculation of AFUDC. AFUDC is calculated by multiplying interest rates by the sum of three components: half of the current month charges, accumulated monthly charges from all prior months, and accumulated AFUDC calculated from all prior months. If charges were recorded earlier than they should have, the current month project cost would be overstated, thus AFUDC would be overstated in that month. In a subsequent month, even though the project cost are reversed, the AFUDC would be calculated again because the reversal of the project cost will only reflect the current half month cost but the other two components; accumulated monthly charges from all prior months and accumulated AFUDC calculated from all prior months, will be mistakenly included in the basis of AFUDC calculation in that month. Therefore, the total AFUDC from both months would be mistakenly calculated multiple times. To remove this overstatement of AFUDC, the Public Staff adjusted the CWIP project monthly charges by removing costs from the month they were recorded and adding them back in the month when they were reversed by the Company. The total project charges will be reduced after the correction of AFUDC calculation.

4) Imputation of 2% invoice discount for well meter purchasing – Upon reviewing invoices of project charges, Aqua was not paying invoices in a timely manner to receive a 2% discount on well meter costs from the supplier for project FP35800018686 WSIC Well Meter Replace – Central. The Public Staff believes that customers should not pay for the non-discounted cost of this project due to Aqua’s failure to make payments in a timely manner. The Public Staff imputed the 2% discount on the well meter costs resulting in a reduction of \$5,146.

The impact of the adjustments discussed in items 1 through 4 above, decreases the overall revenue requirement for Aqua Water operations and Brookwood LaGrange Water operations. The overall revenue requirement for Aqua Water operations is decreased to \$696,701. The overall revenue requirement for Brookwood LaGrange Water operations is decreased to \$22,264. However, the proposed WSIC percentage for Aqua Water operations and Brookwood LaGrange Water operations did not change based on the projected 2022 non-SSIC and non-WSIC revenues. The Public Staff will provide the Commission with revised WSIC and SSIC revenue requirements and percentages based on the recommended adjustments listed above.

Finally, the Public Staff continues to be concerned about the prudence and reasonableness of installation costs for Aqua NC’s Meter Exchange Projects, which increased approximately 40% since Aqua NC’s rate case in Docket No. W-218, Sub 497 (Sub 497 Rate Case). Given the extensive record regarding this matter in Aqua NC’s Sub 497 Rate Case, the complexity of the issue, and the absence of the Meter Exchange Project from Aqua NC’s previous three-year plans,

the Commission has concluded that the proper proceeding in which to address the Public Staff's concerns regarding the costs of Aqua NC's Meter Exchange Projects, after further investigation, is Aqua NC's next general rate case.³

Public Staff Recommendation

The Public Staff plans to present this matter at the Commission's January 10, 2022 Regular Staff Conference and to recommend that Aqua NC be allowed to implement the Public Staff's recommended WSIC and SSIC percentages, effective for service rendered on or after January 1, 2022, subject to true-up. The Public Staff will continue to review the justness, prudence, and reasonableness of these improvements during its review of Aqua NC's future WSIC and SSIC filings and in Aqua NC's next general rate case.

Respectfully submitted this the 22nd day of December, 2021.

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³ *Order Approving Water and Sewer System Improvement Charges on a Provisional Basis and Requiring Customer Notice*, Docket No. W-218, Sub 526A, at 13 (November 1, 2021).

CERTIFICATE OF SERVICE

I hereby certify that I served the foregoing Public Staff 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 22nd day of December, 2021.

Electronically submitted
/s/ William E. Grantmyre