

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. W-218, SUB 526A

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

<p>In the Matter of</p> <p>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</p>	<p>)</p> <p>)</p> <p>)</p> <p>)</p> <p>)</p> <p>)</p>	<p>NOTICE OF PUBLIC STAFF'S PLAN TO PRESENT COMMENTS AND RECOMMENDATIONS AT THE COMMISSION'S JULY 6, 2021, REGULAR STAFF CONFERENCE</p>
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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 NC), that the Public Staff plans to present its comments and recommendations regarding Aqua NC's April 28, 2021 Application for Approval of Water and Sewer System Improvement Charge Rate Adjustments Pursuant to G. S. 62-133.12 (Application) at the Commission's July 6, 2021 Regular Staff Conference.

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

Aqua Application

By its Application, Aqua NC 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, 2021:

	Previously Approved WSIC/SSIC Percentage	Net Proposed Change To WSIC/SSIC Percentage	Cumulative WSIC/SSIC Percentage
Uniform water	0.36%	1.34%	1.70%
Uniform sewer	0.36%	2.71%	3.07%
Fairways water	0.00%	4.96%	4.96%
Fairways sewer	0.05%	0.50%	0.55%
Brookwood water	0.00%	0.60%	0.60%

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 second 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 will go 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	1.70%	-0.040%	1.66%
Uniform sewer	3.07%	0.005%	3.08%
Fairways water	4.96%	0.100%	5.06%
Fairways sewer	0.55%	0.040%	0.59%
Brookwood water	0.60%	0.030%	0.63%

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	\$139,175	\$516,163	\$655,338
Uniform sewer	\$62,761	\$470,762	\$533,523
Fairways water	\$0	\$57,473	\$57,473
Fairways sewer	\$1,009	\$11,040	\$12,049
Brookwood water	\$0	\$38,476	\$38,476

Pursuant to N.C. Gen. Stat. § 62-133.12(g), the cumulative WSIC and SSIC percentages are capped at 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 5% =	\$1,927,324
Uniform sewer	\$16,426,070	x 5% =	\$821,304
Fairways water	\$1,159,708	x 5% =	\$57,985
Fairways sewer	\$2,152,586	x 5% =	\$107,629
Brookwood water	\$6,433,919	x 5% =	\$321,696

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. The updates include the

anticipated non-WSIC and non-SSIC annual service revenues based on Aqua NC's calendar year 2021 projection.

Aqua NC is proposing the above increases/decreases 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 October 1, 2020, through March 31, 2021:

Main relocation	\$192,319
Meters and/or appurtenances replacement	3,672,597
Primary drinking standards	667,894
Secondary drinking water standard	856,819
Service line replacement	234,774
Valves replacement	29,329
Total WSIC plant additions	<u>\$5,653,732</u>

Inflow and infiltration reduction	\$83,886
Lift station and grinder pump replacement	259,195
Motors and blowers replacement	111,641
Water and sewer main relocation	4,407,644
Collection main extension installation	66,014
Total SSIC plant additions	<u>\$4,928,380</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 March 31, 2021, Aqua NC installed two iron and manganese filter projects in the following subdivisions at a total cost of \$856,819:

Lake Springs FeMn Filter, Well #1 and #2	\$252,857
River and Sanders FeMn Filter, Well #8	603,962
Total FeMn filter projects	<u>\$856,819</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, 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.

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. Based on this review, the Public Staff recommends the following adjustments to Aqua NC's WSIC and SSIC revenue requirements:

¹ The River and Sanders filtration project is also known as The Cape Well #8 filter project.

1) Correction to accumulated depreciation – The average amount of accumulated depreciation was understated due to an error in the formula in Aqua NC's Excel spreadsheet for Fairways & Beau Rivage Water.

2) Correction to accumulated deferred income tax (ADIT) – The ADIT calculation for Fairways & Beau Rivage Water was overstated due to the understatement of the average amount of accumulated depreciation discussed above. The ADIT calculation for Fairways & Beau Rivage Wastewater was understated because Aqua NC used tax reserve as of December 31, 2021, instead of average tax reserve, to calculate ADIT.

3) Correction to annual depreciation – The amount of annual depreciation expense for Fairways & Beau Rivage Water was understated because Aqua NC inadvertently used 2021 accumulated depreciation instead of the annual depreciation expense in the calculation of the recovery of incremental depreciation expense portion of the revenue requirement.

4) Adjustment to remove grinder pumps – Aqua NC included \$71,150.93 for grinder pump replacements in plant in service used to calculate the SSIC revenue requirement for Uniform Sewer operations. The grinder pump projects include 24 individual grinder pump replacements. The average cost of the grinder pump replacements was approximately \$2,965.

Based on Aqua NC's response to the Public Staff's data request, the Public Staff's experience, and the record in this docket, the Public Staff has determined that these grinder pump replacements did not benefit the entire system in which

they were replaced but, rather, individual customers in each subdivision. Further, given the nature and magnitude of grinder pump costs, replacements of individual household grinder pumps are performed on an as-needed basis and are not the type of project that would be accelerated by the SSIC incentive. Additionally, the inclusion of expenditures for routine, individual replacements such as grinder pumps would reduce the availability of incentive within the 5% revenue requirement cap to accelerate system improvements that would otherwise be delayed. For these reasons, which are discussed in greater detail in the Public Staff's Initial Comments and Reply Comments,² the Public Staff recommends that grinder pumps not be allowed for SSIC recovery.

5) Adjustment to NCDOT main relocate projects – Aqua NC included \$2,800 for initial engineering services in plant in service for the Flowers Plantation DOT Main Relocation project used to calculate the WSIC revenue requirement for Uniform Water operations. The engineering work, including surveying, design, and permitting, contributed to the completion of both the water main and sewer force main relocation projects and, therefore, subsequent invoices for the associated costs were shared between the two projects. The initial engineering services in the amount of \$2,800 also contributed to the completion of both the water main and sewer force main relocations projects and, therefore, should also be shared between the two projects. For this reason, the Public Staff has removed half of

² The Public Staff filed Initial Comments in Docket No. W-218, Sub 526A on April 19, 2021, and Reply Comments on June 7, 2021.

these engineering costs, \$1,400, from the water main relocation project and added them to the sewer force main relocation project.

6) Adjustment to NCDOT sewer force main relocate project – Aqua NC included \$28,411 of repair and pump and haul costs in plant in service for the Flowers Plantation DOT Main Relocation project used to calculate the SSIC revenue requirement for Uniform Sewer operations. The Public Staff has removed these repair and pump and haul costs in the amount of \$28,411 because the contractors who damaged the sewer force main or the party responsible for properly locating and marking the sewer force main should be held accountable for these costs. Further, the Public Staff is awaiting additional information and is still evaluating the reasonableness of upsizing the former 12-inch sewer force main to a 16-inch diameter pipe.

7) Adjustment to remove Willow Creek LS – Aqua NC included \$83,886 of gravity sewer line realignment, jetting and video, cured-in-place-pipe lining, and sewer line point repair costs in plant in service used to calculate the SSIC revenue requirement for Uniform Sewer operations. Aqua NC asserts that the project constitutes, “improvements completed to reduce and/or eliminate the inflow and infiltration of rain water into a portion of the collection system,” and is an eligible sewer system improvement pursuant to N.C.G.S. § 62-133.12(d). However, based on the chronology of the improvements, lack of cohesion between the separate improvements, and insufficient explanation/documentation provided by Aqua NC to date, the Willow Creek LS costs should not be allowed for SSIC recovery.

The impact of the adjustments discussed in items 1 through 7 above increases the overall revenue requirement for Fairways & Beau Rivage water operations and decreases the overall revenue requirement for Fairways & Beau Rivage wastewater operations, Aqua Water operations, and Aqua Sewer operations. The overall revenue requirement for Fairways & Beau Rivage water operations is increased to \$66,351, which exceeds the 5% cap of the total annual service revenues approved by the Commission in the Sub 526 Rate Case (\$57,985). Therefore, the revenue requirement for Fairways & Beau Rivage water operations is \$57,985 and the proposed WISC percentage is updated from 5.06% to 5.1% after accounting for the EMF. The overall revenue requirement for Aqua Sewer operations is decreased to \$463,973 and the proposed SSIC percentage is updated from 3.08% to 3.04% after accounting for the EMF. However, the proposed SSIC percentage for Fairways & Beau Rivage wastewater operations and the proposed WSIC percentage for Aqua Water operations did not change based on the projected 2021 non-SSIC and non-WSIC revenues respectively. 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 is concerned about the prudence and reasonableness of installation costs for Aqua NC's Meter Exchange Projects, which have 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 Public Staff believes the proper proceeding in which to address these concerns, after further investigation, is Aqua NC's next general rate case.

Public Staff Recommendation

The Public Staff plans to present this matter at the Commission's July 6, 2021 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 July 1, 2021, 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 21st day of June, 2021.

PUBLIC STAFF
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Electronically submitted
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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 21st day of June, 2021.

Electronically submitted
/s/ Megan Jost