



December 1, 2023

Via Electronic Submittal

Ms. A. Shonta Dunston
Chief Clerk
North Carolina Utilities Commission
430 N. Salisbury Street, Room 5063
Raleigh, NC 27603

Re: Docket No. W-100 Sub 67
Order Rescheduling Technical Conference

Dear Ms. Dunston:

On October 17, 2023, the Commission issued an Order Rescheduling Technical Conference. This Order rescheduled the technical conference from October 11, 2023 to December 6, 2023. It required Aqua North Carolina (Aqua) to file individuals that would be appearing at the conference as well as any presentation materials to be used during the technical conference.

Shannon Becker, President, and Ruffin Poole, Director of Development and Regulatory Affairs, will appear on behalf of Aqua. The attached presentation is the material that will be discussed by Aqua at the technical conference.

I hereby certify that a copy of this filing has been served upon the parties of record to Docket No. W-100, Sub 67.

Please do not hesitate to contact Aqua, if there are any questions.

Sincerely,

Robyn E. Lambeth
Senior Executive Assistant
Aqua North Carolina, Inc.
919-653-5771

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W-100, Sub 67 NCUC Technical Conference

Aqua North Carolina

Why Consolidation and Single Tariff Pricing is Beneficial

- Encourages investment and addresses system viability issues
- Fewer revenue requirements lowers administrative costs from reduced need for asset/cost tracking, less financial reporting and streamlined filings
- Promotes customer equity through a consistent rate and quality of service
- Protects against unaffordable rates
- Facilitates cost efficient compliance with water and wastewater standards
- Incentivizes regionalization and consolidation of rates and provides economies of scale

Why Consolidated Rates are Beneficial for Acquisitions

- Rate parity and equitable and comparable service is the goal of consolidated rates.
- Consolidated rates upon acquisition, or soon thereafter, can mitigate rate increases and helps address system viability issues.
- Utilities with greater scale can optimize overall capacity and spread costs to address affordability.
- Each individual system will eventually require a similar infusion of capital for renovations and improvements; only the timing varies.
- Equalizing rates smooths the effect of discrete spikes across systems over time, much like insurance pooling (e.g., extreme weather events).

Non-FMV: Commission Jurisdiction Waterworks of Alamance Example

Commission has the flexibility to set rates outside of a base rate case see: W-218, Sub 408: Commission.

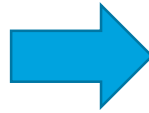
- In this acquisition/transfer approval proceeding, NCUC held open the docket to implement a rate increase for a system.
- Capital improvements were made within a defined period. After completion and submission of system capital improvements, Public Staff reviewed and made recommendations including depreciation expense and return on rate base for the completed system capital improvements.
- Based on documentation filed by Aqua and Public Staff, pursuant to Chapter 62 of the N.C. General Statutes, the NCUC issued a final order allowing a rate increase on the acquired system separate and apart from Aqua's consolidated rates.
- The system was later rolled into the Aqua's consolidated revenue requirement and rates
- All acquisitions have distinctive circumstances and conditions of the transfer.

FMV: Key Protections Exist in Fair Market Value Legislation which Impact Rates

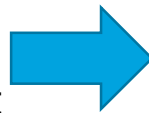
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NC Session Law 2018 (House Bill 351):

- N.C. Gen. Stat. § 62-133.1A(c)(2) – five-year plan for prudent and necessary infrastructure improvements by the acquiring entity.
- Subsection (c)(3) – projected rate impact for the selling entity's customers for the next five years;
- Subsection (e) Commission's Authority – The Commission shall retain its authority under Chapter 62 of the General Statutes to set rates for the acquired system in future rate cases and shall have the discretion to classify the acquired system as a separate entity for rate-making purposes, consistent with the public interest.



Awareness and education is a key component for the entity being acquired to understand the impending rate impacts with the five-year projected capital improvements on top of the fair market value purchase price of the utility system; transparency of the process through the legislation; provides insight into the **worst-case scenario with potential standalone rate structure.**



Aqua interprets this language to provide guidance that the acquired systems determined reasonable fair value be considered in future rate cases. Restrictions on the Commissions authority to set rates at the time of a transfer proceeding do not appear to exist.

A utility may propose consolidation of the acquired system in a rate proceeding (stand-alone or consolidated under a historic or WSIP rate case proceeding). A WSIP would then consider all reasonable capital investment projections, including those from newly acquired systems.

Examples: Aqua States Changing Rates During a Transfer Proceeding

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ILLINOIS:

- Illinois has a step-in/ tiered rate structure upon acquisition.
- 2018 Law: Public Act 098-0213 (HB1379)
 - Various Phase-in %'s exist to attain uniform rates
 - The utility shall recommend a tariff group the acquired entity should become a part of after the the transfer proceeding.
 - The Commission's recommended tariff group shall be consistent with the utility's recommendation, unless such recommendation can be shown to be contrary to the public interest.
 - From the date of acquisition until the date that new rates are effective in the utility's next rate case, the customers of the acquired utility shall pay the then-existing rates of the district or tariff group ordered by the Commission.

TEXAS:

- HB1484 became Texas law in 2021, that allows a newly acquired system, including municipal acquisitions, to move to a rate already being charged by the utility.
- The law is currently in the rulemaking process - no transfer has occurred under this new law to date.
- The statute protects customers by applying rates the Commission has previously approved that are likely more representative of the current costs to provide service to customers receiving a similar service.

Virginia

Single Revenue Requirement Multiple Rate Groups

- Virginia has a tariff structure that includes multiple rate groups
- Once a revenue requirement is determined, rate increases are applied differently to the varying rate groups (smaller increases to higher rate groups and larger increases to lower rate groups. **One rate case 3 different rate groups - Rate parity is intended to be reached over time.**
- History of Aqua VA's rate consolidation:
 - i. 2010 Order approved Aqua VA's proposal to progress to a consolidated statewide uniform rate structure and **approved four rate groups for water and three rate groups for sewer customers;**
 - ii. 2013 Order added **69 water systems to the consolidated rate structure, established a new rate group for systems whose rates were then significantly lower,** and reduced the price difference between rate groups;
 - iii. 2014 Order **added additional water and sewer systems acquired since the previous case, reduced the five water rate groups to three, reduced the three sewer rate groups to two,** and continued to reduce the differences between rates;
 - iv. 2017 Order settled with no changes of rates or rate groups
 - v. the 2021 Order **approved moving two more water systems and three newly-acquired wastewater systems into recommended rate groups.**

Aqua NC Rate Consolidation

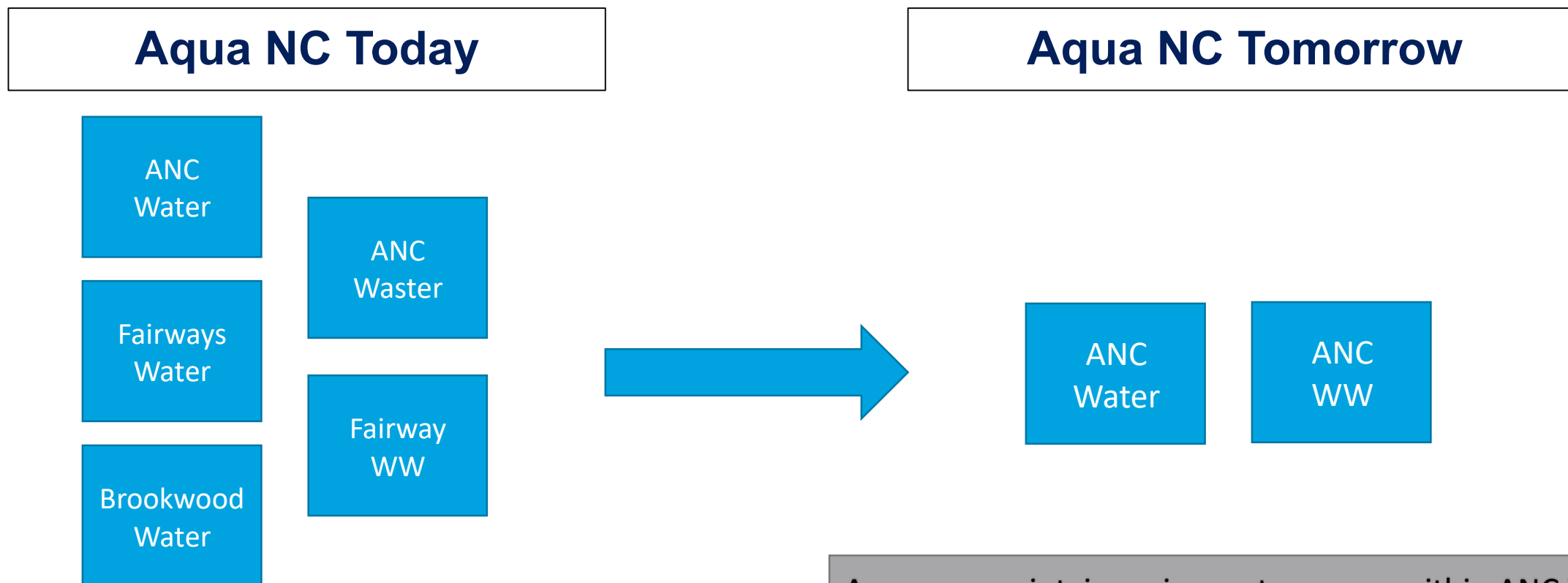
Reduce/merge rate entities/divisions

- Aqua is considering requesting consolidation of its water and sewer rate entities in its next rate case.
 - Apply rates on a graduated basis to an ultimate consolidated rate structure
 - Must consider implementation of varying rate designs (e.g., flat rates, tiered conservation rates, purchased water pass-through rates)
 - Consolidate Aqua's five different revenue requirements (three water and two sewer) into two, and propose rate groups be used within each with ultimate intent to attain rate parity (*See following slide*)

Move to One Revenue Requirement for Customers Receiving Similar Service (1 Water & 1 Sewer)

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Aqua can maintain various rate groups within ANC Water and ANC Wastewater rate entities to provide for rate gradualism as Fairways and Brookwood move closer to ANC W and WW consolidated rates and for newly acquired systems.

Questions?