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March 5, 2024

Ms. Shonta Dunston
Chief Clerk
North Carolina Utilities Commission
430 N. Salisbury Street
Raleigh, North Carolina

**Re: In the Matter of Investigation Regarding Consolidation of Water and Wastewater
Utilities and the Utilization of Uniform Rates
Docket No. W-100, Sub 67**

Ms. Dunston:

Pursuant to the North Carolina Utilities Commission's *Order Establishing Quarterly Technical Conferences and Scheduling First Quarterly Conference* dated December 21, 2023, please find enclosed Red Bird Utility Operating Company, LLC's ("Red Bird") presentation materials for the Technical Conference scheduled for Monday, March 11, 2024. Aaron Silas, Director, Regulatory Operations at Central States Water Resources, Inc. will participate in the March 11 Technical Conference on behalf of Red Bird. In addition, please find enclosed joint presentation materials on behalf of Red Bird, the Public Staff – North Carolina Utilities Commission, Aqua North Carolina, and Carolina Water Service, Inc. of North Carolina.

Please contact me if you or the Commission have any questions regarding this filing.

Best regards,

/s/ Molly M. Jagannathan

Molly M. Jagannathan

Encl.

cc: Parties of Record w/ Encl.

CERTIFICATE OF SERVICE**DOCKET NO. W-100, SUB 67**

I hereby certify that a copy of the attached Technical Conference presentation materials was served electronically or by depositing a copy of the same in the United States Mail, first class postage prepaid, at the addresses contained in the official service list in this proceeding.

This the 5th day of March 2024.

RED BIRD WATER UTILITY OPERATING COMPANY, LLC

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CSWR
Central States Water Resources

SAFE WATER, HEALTHY COMMUNITIES

Consolidation of Water and Wastewater Utilities and the Utilization of Uniform Rates

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centralstateswaterresources.com



Do Uniform Rates Serve the Public Interest?

- Yes, Red Bird believes that Uniform Rates serve the public interest
- Investment without consolidation creates unaffordable rates
 - It is Red Bird's opinion that without consolidation, the cost of providing safe, reliable, and environmentally responsible water and wastewater resources to small communities would be too high for those communities to bear
- Provides overall equity among rate payers
 - Red Bird believes that over the lifespan of different systems, they will need a similar level of investment. As such, although it may appear that one system may be "subsidizing" another with rate consolidation, this is not the case over a longer timespan
- Consolidation and uniform rates have been the answer across many different states including Missouri, Kentucky, Louisiana, Mississippi, and Texas. To date, no state has rejected CSWR affiliates' request for consolidated rates.



Mechanisms to Create Change

- Arizona has put in place some of the best policies to promote system consolidation in the country

Policy Statement 4 – “We wish to encourage the consolidation of small utilities through acquisition because this can result in real benefits to small utilities’ customers. Many small utilities lack the financial resources or access to capital needed for replacements....”

- Texas has recently furthered its efforts supporting system consolidation

HB 2373 Bill Analysis – “[eliminating] the substantial similarity determination to allow a utility to charge one rate to customers across all its water systems or sewer systems [would] eliminate confusion customers have when determining which part of a tariff applies to them. It would also treat water more like electric rate setting and encourage regionalization and consolidation. In addition, it would eliminate staff processing time required to produce multiple rates for one utility with several systems and would, in turn, eliminate testimony and rate case expenses.”



Example - System Condition at Acquisition



The NCDEQ sent a request to the EPA for a consent decree on this system due to years of non-compliance.





Grouping Based on Similar Cost of Service or Similar Characteristics

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- Red Bird believes that the benefits of consolidation occurs when there is one single revenue requirement for water and one single revenue requirement for sewer
- Rate Design, however, presents an opportunity to group various systems based on similar characteristics
- Red Bird's Missouri affiliate utilizes "districts" that differentiate based on facility/infrastructure type
- For groundwater systems, infrastructure such as ground storage tanks, standpipes, elevated storage tanks, or significant treatment beyond chlorination can differentiate

Plant Type Detail	Class	District
Wastewater - Facultative Lagoon (w/ MBBR)	Lagoon	1
Wastewater - Aerated Lagoon (w/ MBBR)	Lagoon	1
Wastewater - Facultative Lagoon	Lagoon	1
Wastewater - Aerated Lagoon	Lagoon	1
Wastewater - Extended Aeration	Mech	2
Wastewater - Recirculating Media Filter	Mech	2
Wastewater - SBR - Extended Aeration	Mech	2
Wastewater - Extended Aeration (w/ IFAS)	Mech	2
Wastewater - Recirculating Sand Filter (w/ MBBR)	Mech	2
Wastewater - Recirculating Sand Filter	Mech	2
Wastewater - Aerated Lagoon	Mech	2
Wastewater - Facultative Lagoon	Mech	2
Wastewater - Oxidation Ditch	Mech	2



Affordability During Migration

- CSWR has experience with various mechanisms that allow for rate gradualism during a migration to uniform rates and discusses a few such mechanisms below:
 - A Rate Mitigation Regulatory Asset was approved by CSWR's Mississippi affiliate that was designed to provide a "glide path to customer rate adjustments between the billing rates of the acquired utility and the then applicable Commission approved state-wide rate for... existing customers."
 - A System Acquisition Regulatory Asset was approved by CSWR's Louisiana affiliate that provided a path for the Utility to adopt the current rates of a given utility and allow for a period of time for any given customer or system to see the improved quality of service and the necessary improvements prior to being consolidated into the company's state-wide rate.
 - Overall, CSWR and its affiliates have found that allowing the Company the flexibility to collaboratively work with the Commission and Consumer Advocate to determine ways that the Company can earn a fair and reasonable return while promoting gradualism yields favorable results for all parties.



Timing And Efficiency

- Red Bird will likely propose to adopt the existing rates at the time of transfer and request a “path” to consolidation be established
- Through its experience in various states, CSWR believes that the ability to “combine” several acquisitions into a single application or a single procedural schedule would improve processing efficiency
- Distressed system determination and an expedited process waiving certain filing requirements may also provide an opportunity for customers to have quicker access to safe and reliable service
 - Waiver for various items that may not be available such as detailed easement/ownership information, a detailed 5-year budget, and various components of the rate base determination would also allow for a quicker process for systems that are agreed to qualify as distressed

Questions?



Public Staff
North Carolina Utilities Commission

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Docket No. W-100

SUB 67



Carolina Water Service
of North Carolina™



RED BIRD
Utility Operating Company
A CSWR Managed Utility

OVERVIEW

- On December 6th 2023 the Commission held a technical conference during which stakeholders presented their thoughts on consolidation.
- On December 21st 2023 the Commission indicated that discussions regarding these topics should be continued by the various stakeholders and asked to identify points of consensus.
- Representatives from all stakeholders met on February 6th, February 14th, and February 22nd to discuss said topics and attempt to identify points of consensus.

TOPIC 1:

Whether water and wastewater systems should be grouped based on similar costs of service or other similar characteristics to address the unique differences of each system without performing individual system cost of service studies when establishing rates?

Companies

No. Preference is for truly uniform rate with a single revenue requirement.

Public Staff

Commission and parties need to consider the advantages and disadvantages of grouping systems in the absence of individual cost of service studies. Potential characteristics include regionality, treatment (PFAS, Fe/Mn), source (surface, well, purchased), Fair Value, purchase acquisition adjustment, system age, socioeconomic status.

TOPIC 2:

Whether a transferred system can be incorporated into an existing WSIP multi-year rate plan to avoid increasing the number of standalone rate entities between WSIP periods?

Aqua and Carolina Water

Yes. This may require flexibility to adapt reporting to WSIP requirements.

Red Bird

Not applicable at this time.

Public Staff

No. Acquisition of a large system or multiple systems could have a material impact on cost of service and/or revenues between WSIP proceedings. The annual review functions as a look back and not a recalculation on a go-forward basis and, regardless, there would be feasibility concerns with modifying projections to accommodate the addition of new systems.

TOPIC 3:

How should the Commission address the affordability issue of low-income customers when migrating to uniform rates?

All Stakeholders agree that the future of LIHWAP funding will impact this response.

Aqua

Additional customer funded assistance programs, outside of LIHWAP, and the use of tiered usage rates may be helpful in addressing affordability issues for low-income customers.

Carolina Water

There are existing assistance programs, such as county programs. Issue with resource gathering and communication with customers. Assistance is siloed.

Red Bird

Adopting of existing rates during acquisition and potential phased approaches using regulatory assets.

Public Staff

Rate design with lower access fee. Inclusion of an essential or minimum amount of consumption. Increasing block rates. Utility funded or shared contribution assistance program. Bill amount as percentage of household income.

TOPIC 3 (CONT.):

What tools, if any, are available within the North Carolina General Statutes and Commission rules to address the affordability issue?

Aqua

Policy objective of helping low-income households pay their bill would get around the prohibition against discriminatory rates.

Public Staff

§ 62-130-132 and 140 may hamper efforts to address affordability issues.

TOPIC 4:

Whether acquired systems that have a cost of service less than the utility's uniform rate cost of service should be included in uniform rates at the time of the transfer.

A strict reading of the prompt limits this to transfer proceedings of existing certificates and that is how the parties have responded. Was the Commission more generally referencing transfers, which might include CPCNs? Developers?

Companies

Yes.

Public Staff

No. Acquisition of a large system or multiple systems could have a material impact on cost of service and/or revenues between WSIP proceedings. The annual review functions as a look back and not a recalculation on a go-forward basis and, regardless, there would be feasibility concerns with modifying projections to accommodate the addition of new systems.

What are the circumstances that would warrant gradualism?

TOPIC 4 (CONT.):

In what circumstances, if any, would the Public Staff recommend that these systems not be charged the uniform rates at the time of transfer and receive standalone rates?

Public Staff

In most circumstances the Public Staff would recommend that these systems not be charged the uniform rates at the time of transfer and receive standalone rates. An exception might be if there are planned improvements in the very short term that would increase the cost of service to result in calculated rates equal to or greater than the uniform rate. Examples were provided in the first technical conference.

TOPIC 5:

Should the Commission consider it appropriate ongoing policy that the determination of whether uniform rates are appropriate at the time of transfer will be made on a case-by-case basis regardless of whether the cost of service for the standalone system supports such approval?

Companies

Yes, but certainty is needed. The default should be uniform rates with exceptions as the circumstances warrant on a case-by-case basis.

Public Staff

Yes, but ongoing concerns regarding implementation of uniform rates for an acquired system during the duration of a WSIP are addressed elsewhere.

TOPIC 6:

What mechanisms would facilitate efficient transfer of small water and wastewater systems to the larger utilities?

Companies

Some ideas include the following:

- Transfer review “light” - No revenue requirement/cost of service. The analysis would be part of the next rate case. Potential eligibility criteria such as size (regulatory definitions of Class A, B, and C), troubled, disadvantaged.
- Attractive “market” rate base allowed for amounts paid above net book value (NBV) for nongovernmental small/troubled/distressed systems. Appraisals would likely be cost prohibitive.
- Allowable acquisition adjustments based on certain streamlined criteria such as average rate base per customer.

Public Staff

Concerns about formulating definitions and criteria, evaluating consequences, and maintaining protections. The existing forms, policies, and procedures exist for a reason. Open to common sense reform that retains customer protection.

TOPIC 6 (CONT.):

For example, for administrative efficiency, should an acquiring utility be permitted to combine several acquisitions into a single consolidated application for Commission approval?

Companies

Yes. However, the burden for the utilities is the application, discovery, and procedure, and more specifically litigation of the cost of service and acquisition adjustment.

Public Staff

Limited resources to facilitate stacked filings, including investigation, site visit, testimony, and hearing. In some ways, consolidation would exacerbate those issues.

TOPIC 7:

Should the rate base of the acquired systems be established in the transfer proceeding, rather than having the rate base determination deferred to a future general rate case proceeding?

Aqua, Carolina Water, and Public Staff

Yes. One exception might be accounting treatment of a deficit incurred as an emergency operator.

Red Bird

No, defer to a future general rate case.