

**SANFORD LAW OFFICE, PLLC**  
Jo Anne Sanford, Attorney at Law

March 14, 2019

Via Electronic Filing

Ms. M. Lynn Jarvis, Chief Clerk  
North Carolina Utilities Commission  
4325 Mail Service Center  
Raleigh, North Carolina 27699-4325

Re: Aqua North Carolina, Inc., Docket No. W-218 Sub 497 & 497A  
Response to Ordering Paragraph Number 25 in the North Carolina  
Utilities Commission's Order of December 18, 2018

Dear Ms. Jarvis:

Attached please find for filing the affidavit of Ed Thill, Controller II for Aqua North Carolina, Inc. ("Aqua" or "Company"), responding to the directive contained in Ordering Paragraph 25 of the Commission's December 18, 2018 *Order Approving Partial Settlement Agreement and Stipulation, Granting Partial Rate Increase, and Requiring Customer Notice*.

As always, thank you and your staff for your assistance; please feel free to contact me if there are any questions or suggestions.

Sincerely,

**Electronically Submitted**  
/s/Jo Anne Sanford  
Sanford Law Office, PLLC  
State Bar No. 6831

Attorney for Aqua North Carolina, Inc.

c: Parties of Record

STATE OF NORTH CAROLINA  
UTILITIES COMMISSION  
RALEIGH

DOCKET NO. W-218, SUB 497  
DOCKET NO. W-218, SUB 497A

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of

Reporting Requirements from Docket	)	
No. W-218, Sub 497 - Application by	)	<b>AFFIDAVIT OF EDWARD P. THILL,</b>
Aqua North Carolina, Inc., 202	)	<b>CONTROLLER II, AQUA NORTH</b>
Mackenan Court, Cary, North	)	<b>CAROLINA, INC. CONCERNING</b>
Carolina 27511 for Authority	)	<b>FUTURE ACCOUNTING</b>
To Adjust and Increase Rates for	)	<b>TREATMENT OF JOHNSTON</b>
Water and Sewer Utility Service in	)	<b>COUNTY TRANSMISSION AND</b>
All of its Service Areas in North	)	<b>CAPACITY FEES</b>
Carolina	)	

**NOW COMES** Edward P. Thill, Controller II, Aqua North Carolina, Inc. ("Aqua" or "Company"), being duly sworn, who hereby executes this Affidavit on behalf of Aqua in Docket Nos. W-218, Sub 497 (a general rate case) and Sub 497A (a reporting docket), in response to an order of the North Carolina Utilities Commission ("Commission" or "NCUC").

**BACKGROUND**

1. On December 18, 2018, the Commission entered an Order in Docket No. W-218, Sub 497, captioned *Order Approving Partial Settlement Agreement and Stipulation, Granting Partial Rate Increase, and Requiring Customer Notice.*

Ordering Paragraph No. 25, at page 186, provides as follows:

That Aqua NC shall, within 30 days following the issuance of this Order, make a compliance filing to show its present and future accounting treatment, in a manner consistent with the findings and conclusions of the Commission herein, of the capacity purchased

from, and the transmission expenses paid to, Johnston County. Such filing shall include the net rate base adjustment and total revenue requirement effect to the Company as a result of the Commission's determinations of these issues herein.

2. On January 18, 2019, Aqua filed a partial response to the Commission's request for information, in the form of an Affidavit by Tammy S. Bernard, Accountant III, Aqua North Carolina, Inc. The Affidavit provided the requested information related to the Company's present accounting treatment of the capacity purchased from, and transmission fees paid to, Johnston County. In that same filing, Aqua requested additional time (until Friday, March 15, 2019) to file the remainder of its response to the Commission's request for information related to the Company's future accounting treatment of the capacity purchased from, and transmission fees paid to, Johnston County and the net rate base adjustment and total revenue requirement effect to the Company as detailed in Ordering Paragraph No. 25 of the Sub 497 Rate Case Order issued on December 18, 2018.

3. By Order dated January 24, 2019, the Commission granted Aqua's request for an extension of time until Friday, March 15, 2019, to file the balance of its response, dealing with the future treatment of the items detailed in Ordering Paragraph No. 25.

**FUTURE ACCOUNTING TREATMENT OF CAPACITY PURCHASED FROM, AND TRANSMISSION FEES PAID TO, JOHNSTON COUNTY AND THE NET RATE BASE ADJUSTMENT AND TOTAL REVENUE REQUIREMENT EFFECT TO THE COMPANY**

4. In June 2018, Aqua paid Johnston County \$785,000 as payment for a transmission/distribution fee and \$1,335,000 for the reservation of 250,000 gallons per day ("gpd") of wastewater treatment capacity in the Johnston County wastewater treatment plant ("WWTP"). The total price paid was \$2,120,000. Aqua initially capitalized this total combined cost to Rate Base/Utility Plant In-Service ("UPIS"), GL Account 300000, as a non-depreciating asset, consistent with Aqua President Becker's rebuttal testimony that it was appropriate to include these costs in rate base because "the capacity will be used within a reasonable time frame after the close of our evidentiary hearing." (See *witness Becker's Prefiled Rebuttal Testimony, filed September 4, 2019, at page 26, lines 4 – 7*)

5. As required by Finding of Fact No. 44 of the Commission's Sub 497 Rate Case Order, Aqua removed \$785,000 of the \$2,120,000 from UPIS (GL 300000) for the transmission and distribution fees paid to Johnston County and recorded those fees to Deferred Reg Asset (GL 186399) to be amortized over six years, with no unamortized balance included in the Company's rate base. (See *EXHIBIT 1, "Reporting Requirement – Ordering Para 25 – Capacity."*) In addition, consistent with the Sub 497 Rate Case Order, Aqua amortized ½ month of the transmission and distribution fees in December 2018 and will continue to amortize those fees monthly until they are fully amortized in December 2024. The amortization is being recorded as a debit to expense GL 736500 – Outside

Services Other – Transmission & Distribution Operations and a credit to GL 186399 Deferred Reg Asset. (See *EXHIBIT 2, "Aqua Amort JoCo" for the Company's amortization schedule*). The unamortized balance will be excluded from rate base, so the revenue requirement is simply the recovery of the annual amortization of \$130,833 ( $\$785,000 / 6$  years).

6. In December 2018, as required by Finding of Fact No. 44 of the Commission's Sub 497 Rate Case Order, Aqua removed \$1,335,000 from UPIS (GL Account 300000) and moved that amount to a non-earning account: Property Held for Future Use (GL Account 103000). (See *EXHIBIT 1, "Reporting Requirement – Ordering Para 25 – Capacity" in Aqua's partial response dated January 18, 2019.*) Upon the asset being placed in service, Aqua will remove this capacity fee from Property Held for Future Use and add the cost to Other Plant and Miscellaneous Equipment (GL Account 389000), which will be included in future rate base. Taking guidance from Footnote 35 on page 85 of the Commission's Sub 497 Rate Case Order, Aqua will depreciate the capacity fee over a 50-year life beginning in the month placed in service. The initial annual revenue requirement associated with the capacity fee would be \$140,713 if it were included in rates during its first year placed in service. (See *EXHIBIT 3, "Capacity Fee Revenue Requirement."*)

7. The Sub 497 Rate Case Order did not contain specific direction concerning accounting treatment for any developer payments received in support of the capacity and transmission and distribution fees paid to Johnston County.

However, in determining the intent with respect to accounting, Aqua is guided by the following pertinent excerpts from the Order:

The Commission, on balance and in exercising its discretion, endeavors to decide these issues in a manner that is both in the public interest (here, meaning rate base-neutral), and is consistent with the intent of the underlying contract. [page 85]

It seems clear that the intent of the parties, as memorialized in the contracts at issue here, was to effectuate these transactions in a rate-base neutral and revenue-neutral manner (the developers pay Aqua NC, and then Aqua NC pays Johnston County), where feasible. [page 85]

....the Commission directs Aqua NC to charge, in all future contracts executed with Flowers Plantation developers, a reservation fee of at least \$8.48 per gpd, unless and until such time as Aqua receives written communication from the County informing Aqua NC that it has changed the \$8.48 per gpd rate, inclusive of the transmission and distribution expense charge, at which point the modified rate controls. [page 85]

Finally, the Commission directs Aqua NC to use, going forward, accounting treatment and classifications for rate base purposes in a manner consistent with the treatment afforded by this Order. [page 86]

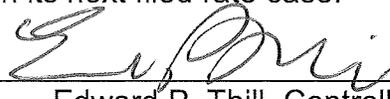
8. In order to effectuate the intended rate base-neutral result described in the Sub 497 Rate Case Order, Aqua intends to utilize the following accounting treatment:

- Future payments received from Flowers Plantation developers shall be recorded as a simple pass-through collection of funds for the benefit of Johnston County, rather than as Contribution in Aid of Construction ("CIAC").
- The funds will be accumulated in a Deferred Reg Liability account (GL Account 253110) until such time as additional capacity (together with related transmission and distribution fees) is purchased, at which

time the funds will be remitted to Johnston County and the Reg liability relieved.

- In that the purchase of additional capacity would be funded from this liability, the purchase would yield no effect on rates, unless the liability proved over or under-funded. Any excess funds collected would revert to traditional amortizing CIAC and serve to reduce rates going forward, while any deficit would be recovered from previously collected CIAC and serve to increase rates going forward.
- The unremitted fund balance would constitute a deduction against future rate base.

9. Regarding the transmission and distribution fee of \$785,000 paid to Johnston County in 2018, the Commission's Order to amortize the fee as an operating expense over six years, while not addressing the related CIAC's long-term reduction of rate base, does not achieve a rate base-neutral and revenue-neutral result. In that the recent Order granted Aqua the recovery of an amortized portion of the transmission and distribution fee, correction of this imbalance is more complicated and, in the opinion of Aqua, deserves a proper forum for debate so that all parties can consider the intended effect as well as the resulting consequences to both Aqua and its customers. Aqua would appreciate the opportunity to re-address this issue in its next filed rate case.

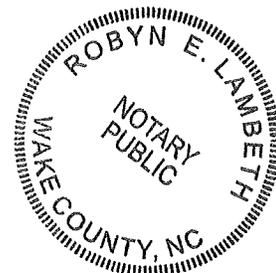


Edward P. Thill, Controller II  
Aqua North Carolina, Inc.

Sworn to and subscribed before me  
this the 14<sup>th</sup> day of March 2019.



Notary Public



My Commission Expires: May 13 2021



Work Order 35880089130

JE Code MISC ORDERING PARA 25 - CAPACITY

Book

Description Rate Cs Adj Johnston Co WW Capacity

ID

W-218 SUB 497A

Basis

Asset Description Property Held For Future Use: \$1,335,000 for Aqua purchase of capacity in Johnston County WWTP to serve Aqua customers once interconnection has been completed.

Cancel

Company Aqua North Carolina

Book Schema all

Functional Class Wastewater

Subledger None

GL Account 103-Property Held for Future Use

Property Group Office Furniture & Equ

Bus Segment 2-Wastewater

Accounting Month 12/2018

Utility Account 103000-Property Held Future Use-W

Eng In Service Year 12/2018

Sub Account None

Posting Quantity 1.00

Retirement Unit Office Furniture EA

Posting Amount \$1,335,000.00

Serial Number

Minor Add

Yes

No

Asset Location NEUSE COLONY N396 SWR 02-237

Class Codes

Class Code Values

Class Code DSIC Eligible

Class Code

New or Replacement

Not Applicable

Prior Rate Case Adjustments

Add \$1,335,000 Johnston city ww capacity purchase to HFU (GL 103000)

Rate case adjustment

Enter Total Adjustment Amounts:

EXHIBIT 1

REPORTING REQUIREMENT

ORDERING PARA 25 - CAPACITY

W-218 SUB 497A

Adjustment Date: 12/2018

Entry Quantity: 1.00

Work Order: 35880089130

Adjusted Quantity: 1.00

Entry Amount: \$2,120,000.00

Journal Entry Code: MISC

Second Financial Cost: \$0.00

Adjusted Amount: 1,335,000.00

Transaction Description: Rate case adjustment for Johnston County capacity purchased. Move \$1,335,000 to HFU to close when interconnect is complete. Further, move \$785,000 transmission fees to 186399 to be amortized for 6 years.

FERC Activity

Add

Adjust

Transaction: Adjustment - Work Order Addition

Current Basis Amounts

Adjusted Basis Amounts

Cost - No Detail	2,120,000.00
Labor	.00
Materials	.00
CIAC-Non Taxable	.00
AFUDC Equity	.00
AFUDC Debt	.00
IGNORE	.00

Cost - No Detail	1,335,000.00
Labor	.00
Materials	.00
CIAC-Non Taxable	.00
AFUDC Equity	.00
AFUDC Debt	.00
IGNORE	.00

Current Total: \$2,120,000.00

Adjusted Total: \$1,335,000.00

RC Adjustment -> move \$785,000 to 8800 186399 to amortize over 6 yrs. These are transmission fees.

Ledger Entry Detail

REPORTING REQUIREMENT

ORDERING PARA 25 - CAPACITY W-218 SUB 497A

Description	Work Order Addition	Work Order	35880089130
Long Description	Organization costs		
Property Group	Intangible Plant <input checked="" type="checkbox"/>	Subledger	None
Retirement Unit	Organization costs		
Unit of Measure	EA	Retire Method	specific
Asset Location	NEUSE COLONY N396 SWR 02-237		
Utility Account	351100-Organization	In Service Year	Jun-2018
Sub Account	None	Eng. In Service Year	Jun-2018
Business Segment	2-Wastewater	Accumulated Quantity	1.00
GL Account	101-Utility Plant in Service	Accum Cost( USD )	2,120,000.00
Company	Aqua North Carolina		
Functional Class	Wastewater		
Serial Number		Depreciation Group	351100-NCw/W-ANC-Eas

Classification Information

Classifications	Values
Blanket Auto Close <input type="checkbox"/>	<input type="checkbox"/>
Bonus Depreciation <input type="checkbox"/>	<input type="checkbox"/>
Contributed Property <input type="checkbox"/>	<input type="checkbox"/>

OFFICIAL COPY Mar 15 2019



Enter Total Adjustment Amounts:

EXHIBIT 1  
REPORTING REQUIREMENT  
ORDERING PARA 25 - CAPACITY  
W-218 SUB 497A

Detail  
Book  
Cancel

Adjustment Date: 12/2018  
 Work Order: 35880089130  
 Journal Entry Code: MISC

Entry Quantity: 1.00  
 Adjusted Quantity: .00  
 Entry Amount: \$1,335,000.00  
 Second Financial Cost: \$.00  
 Adjusted Amount: 1.00

Transaction Description: Rate case adjustment for Johnston County WW capacity purchased by Aqua \$1,335,000 to be moved to HFU (GL 103000) until interconnect has been completed, then charge will be unitized as part of the capital project.  
 Transaction: Adjustment - Work Order Addition

FERC Activity  
 Add   
 Adjust

Current Basis Amounts

Adjusted Basis Amounts

Cost - No Detail	1,335,000.00
Labor	.00
Materials	.00
CIAC-Non Taxable	.00
AFUDC Equity	.00
AFUDC Debt	.00
IGNORE	.00

Cost - No Detail	.00
Labor	.00
Materials	.00
CIAC-Non Taxable	.00
AFUDC Equity	.00
AFUDC Debt	.00
IGNORE	.00

Current Total: \$1,335,000.00

Adjusted Total: \$.00

RC Adjustment → move \$1,335,000 to HFU (GL 103000) until Johnston city interconnect has been completed and placed into service.

Ledger Entry Detail

REPORTING REQUIREMENT  
ORDERING PARA 25 - CAPACITY

W-218 SUB 497A

Description	Work Order Addition	Work Order	35880089130
Long Description	Organization costs		
Property Group	Intangible Plant	Subledger	None
Retirement Unit	Organization costs		
Unit of Measure	EA	Retire Method	specific
Asset Location	NEUSE COLONY N396 SWR 02-237		
Utility Account	351100-Organization	In Service Year	Jun-2018
Sub Account	None	Eng. In Service Year	Jun-2018
Business Segment	2-Wastewater	Accumulated Quantity	1.00
GL Account	101-Utility Plant in Service	Accum Cost( USD. )	1,335,000.00
Company	Aqua North Carolina		
Functional Class	Wastewater		
Serial Number		Depreciation Group	351100-NCWW-ANC-Eas

Classification Information

Classifications	Values
Blanket Auto Close	
Bonus Depreciation	
Contributed Property	

Complete / Modify GL Account Information and Accept:

Scroll to the modified rows and select an offset account

Cost - No Detail (\$1,335,000.00)

Offset Account: [Account Name]

Accept

Cancel

REPORTING REQUIREMENT  
ORDERING PARA 25 - CAPACITY  
W-218 SUB 497A

Tax Overheads (\$4,151.85)

Offset Account: Tax Only

AQUA NORTH CAROLINA, INC.  
 Acct 8800 - 186399  
 Johnston County Transmission & Distribution Fees (6 years)  
 December 2018  
 Expense to 736500

Description	PERIOD	TOTAL AMOUNT	BALANCE 12/31/18	ADDITIONS	EXPENSE TO MONTH # 0.50	BALANCE YTD
Johnston Co	12/18-12/24	785,000.00		785,000.00	5,451.39	779,548.61
		<u>785,000.00</u>	-	<u>785,000.00</u>	<u>5,451.39</u>	<u>779,548.61</u>

**AQUA NORTH CAROLINA, INC.**  
**Johnston County Capacity - W-218, Sub 497**  
**Rate Entity: Aqua North Carolina Sewer**

Line#				
1	Rate Order Date		12/20/2018	
2	Initial Year of Service		2019	
3				
4	Johnston County-Capacity Fee		1,335,000.00	Full Amount
5	Accumulated depreciation (in initial year of service)		(13,350.00)	2019=1/2 yr depr
6	Net plant		<u>1,321,650.00</u>	
7	Deferred Income Tax		-	
8	Net Eligible Property		<u>1,321,650.00</u>	
9	Pre-tax ROR %		<u>8.6117%</u>	Note 1
10	Pre-tax rate of return		113,815.96	
11	Depreciation expense		<u>26,700.00</u>	full year depr exp
12	Total, excluding regulatory fee		140,515.96	
13	Regulatory fee gross-up factor		0.99860	Note 2
14	Calculated revenue requirement, if added to current rates		<u><u>140,712.96</u></u>	
15				
16	Aqua Sewer Customer Count as of 2/28/2019		16,024	
17	Impact to ANC Sewer customer monthly bill	\$	0.73	
18				
	(Note 1) Capital Structure and Rate of Return from Docket No. 218, Sub 497:			
19				
20	SIT rate (effective 1/1/19)		2.50%	
21	FIT rate (effective 1/1/18)		21.00%	
22	Composite income tax rate 1-((1-2.5%) x (1-21%))		22.98%	
23				
24				
25	<u>Capital costs and structure from Docket No.218, Sub 497</u>		<u>Cost</u>	Pre -Tax Weighted Weighted Cost Cost
26	Debt	50%	4.63%	2.315% 2.315%
27	Equity	50%	9.70%	4.850% 6.297%
28	(Pre Tax Equity 4.85% / (1-22.98%))			<u>7.165% 8.612%</u>
29				
30	(Note 2)			
31	Regulatory fee rate (as of 7/1/2016)		0.140%	
32	Regulatory fee gross-up factor 1-.14%		0.99860	
33				
34	<u>Average Residential Customer Bill</u>			
	Residential Flat Rate Customer Bill - from Docket W-218, Sub 497, as			
35	of 12/18/2018	\$	72.04	