DOCKET NO. W-218, SUB 526A

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

) ORDER APPROVING WATER AND
) SEWER SYSTEM IMPROVEMENT
) CHARGES ON A PROVISIONAL
) BASIS AND REQUIRING
) CUSTOMER NOTICE
)

BY THE COMMISSION: On April 27, 2022, Aqua North Carolina, Inc. (Aqua or the Company) filed an application requesting authority to adjust its Water System Improvement Charges (WSIC) and Sewer System Improvement Charges (SSIC) effective July 1, 2022, pursuant to N.C. Gen. Stat. § 62-133.12 and Commission Rules R7-39(f) and R10-26(f) (Application).

On June 3, 2022, the Public Staff filed its Notice of Public Staff's Plan to Present Comments and Recommendations at the Commission's June 20, 2022, Regular Staff Conference (Notice).

On June 20, 2022, the Public Staff presented this matter to the Commission at its Regular Staff Conference.

Based on the Application, the records of the Commission, and the comments and recommendations of the Public Staff, the Commission makes the following

FINDINGS OF FACT

- 1. Aqua is a corporation duly organized under the laws of, and is authorized to do business in, the State of North Carolina. Aqua is a franchised public utility providing water and sewer utility service to customers in North Carolina.
- 2. Aqua's WSIC and SSIC percentages were reset to zero as of October 26, 2020, the effective date of Aqua's new base rates in its general rate case in Docket No. W-218, Sub 526 (Sub 526 Rate Case). This is Aqua's fourth filing to implement charges under the WSIC and SSIC mechanisms since the Sub 526 Rate Case.
- 3. The Commission approved Aqua's request to utilize the WSIC and SSIC mechanisms on December 22, 2014, effective January 1, 2015. The WSIC and SSIC procedures allow for semiannual adjustments to Aqua's rates every January 1 and July 1

based upon reasonable and prudently incurred investment in eligible system improvements completed and placed in service prior to the filing of the request.

4. Aqua requested authority to impose the following WSIC and SSIC percentages effective for service rendered on and after July 1, 2022:

	Previously Approved WSIC/SSIC Percentage	Net Proposed Change To WSIC/SSIC Percentage	Cumulative WSIC/SSIC Percentage
- Aqua water	3.35%	-0.03%	3.32%
Aqua sewer	3.26%	-0.05%	3.21%
Fairways/Beau Rivage water	5.25%	-0.13%	5.12%
Fairways/Beau Rivage sewer	0.67%	-0.01%	0.66%
Brookwood/LaGrange water	0.95%	-0.01%	0.94%

5. The WSIC and SSIC percentages above do not include the Experience Modification Factor (EMF) adjustments from the 2021 annual WSIC and SSIC revenue review which will go into effect on July 1, 2022. The impacts of the 2021 EMF on Aqua's requested WSIC and SSIC percentages are as follows:

	WSIC/SSIC Percentage	2021 Experience Modification Factor	Cumulative WSIC/SSIC Percentage
Aqua water	3.32%	0.49%	3.81%
Aqua sewer	3.21%	0.89%	4.10%
Fairways/Beau Rivage water	5.12%	1.87%	6.99%
Fairways/Beau Rivage sewer	0.66%	0.18%	0.84%
Brookwood/LaGrange water	0.94%	0.24%	1.18%

6. The cumulative WSIC and SSIC revenue requirements after updates of the previously approved WSIC and SSIC revenue requirements for the second year are as follows:

	Previously Approved WSIC/SSIC	Net Change to WSIC/SSIC	Cumulative WSIC/SSIC
	Revenue	Revenue	Revenue
	<u>Requirement</u>	<u>Requirement</u>	<u>Requirement</u>
Aqua water	\$1,343,492	(\$12,909)	\$1,330,583
Aqua sewer	\$568,741	(\$9,062)	\$559,679
Fairways water	\$66,351	(\$1,615)	\$64,736
Fairways sewer	\$15,514	(\$286)	\$15,228
Brookwood water	\$60,740	(\$903)	\$59,837

7. Pursuant to N.C.G.S. § 62-133.12(g), as amended by Session Law 2021-149, effective September 10, 2021, the cumulative WSIC and SSIC percentages are capped at 7.5% of total annual service revenues approved by the Commission in the Sub 526 Rate Case. The resulting maximum revenue requirements for water and sewer operations are as follows:

	Sub 526 Annual Service Revenues	Maximum WSIC/SSIC Percentage	Maximum WSIC/SSIC Revenue Requirement
Aqua water	\$38,546,489	x 7.5% =	\$2,890,987
Aqua sewer	\$16,426,070	x 7.5% =	\$1,231,955
Fairways/Beau Rivage water	\$1,159,708	x 7.5% =	\$86,978
Fairways/Beau Rivage sewer	\$2,152,586	x 7.5% =	\$161,444
Brookwood/LaGrange water	\$6,433,919	x 7.5% =	\$482,544

As shown above, Aqua's proposed WSIC and SSIC revenue requirements do not exceed the maximum WSIC and SSIC revenue requirement for water and sewer operations.

- 8. Aqua's cumulative WSIC and SSIC revenue requirements are comprised of the updates to the previously approved WSIC and SSIC revenue requirements that became effective on January 1, 2021, July 1, 2021, and January 1, 2022. The updates include the anticipated non-WSIC and non-SSIC annual service revenues based on Aqua's calendar year 2022 projection.
- 9. In its application, Aqua proposed the above decreases in the cumulative WSIC and SSIC percentages compared with the previously approved WSIC and SSIC percentages. The reason for the decrease is that Aqua updated the Year-2 accumulated depreciation (AD) and accumulated deferred income tax (ADIT). The absolute value of AD and ADIT increased, the net plant investment decreased, and the annual WSIC and SSIC revenue requirement decreased; thus, the updated WSIC and SSIC percentages decreased.
- 10. 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 infrastructure improvements 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.

- 11. The Public Staff reviewed Aqua's updated WSIC and SSIC revenue requirement calculation for the period July 1, 2022 through June 30, 2023. Based on its review, the Public Staff recommended the following adjustments to the Aqua's Sewer SSIC revenue requirement:
 - (1) <u>Correction to plant in service</u> One system improvement project that closed in 2020 in the amount of \$28,810 was misclassified in Utility Account 354200. The Public Staff reclassified this amount from Utility Account 354200 to Utility Account 371000. In addition, one system improvement project that closed in 2021 in Utility Account 371000 should have been in the amount of \$144,221 instead of \$144,573 as shown in the documentation supporting the Application. The Public Staff corrected this amount. As a result, the total plant in service closed in Q4 2020 and Q1 2021 is corrected to \$4,801,406.
 - (2) <u>Correction to average accumulated depreciation (AAD)</u> As a result of the correction to plant in service, the annual depreciation expense changed from \$89,986 to \$91,495, and the beginning accumulated depreciation as of June 30, 2021, changed from \$54,535 to \$56,825. Therefore, the AAD for the period from July 1, 2022 through June 30, 2023, changed from \$189,514 to \$194,068.
 - (3) Correction to average accumulated deferred income taxes (ADIT) As a result of the correction to plant in service, the 2021 plant additions changed from \$4,652,264 to \$4,651,912. The repair tax additions were corrected from \$195,240 to \$266,391. As a result of these changes, the average tax depreciation reserve for the period from July 1, 2022, through June 30, 2023, changed from \$701,295 to \$766,726. Therefore, taking into account the change in AAD from Item 2 above, the average ADIT changed from \$117,582 to \$131,568.
 - (4) <u>Correction to annual SSIC revenue requirement</u> Taking into account the corrections in Items 1 through 3 above, the annual SSIC revenue requirement changed from \$459,456 to \$459,416.
- 12. The Company agrees with the Public Staff's four recommended adjustments described above. Because the decrease in the overall revenue requirement for Aqua Sewer operations is immaterial, the proposed SSIC percentage for Aqua Sewer operations does not change based on the projected 2022 non-SSIC revenue.

13. Based on the adjustments described above, the Public Staff recommended the following adjustments to the WSIC and SSIC revenue requirements and percentages proposed by Aqua:

		WSIC/SSIC		
	WSIC/SSIC	Revenue		WSIC/SSIC
	Percentage	Requirement	Impact of	Percentage
	Per Aqua	Per Public	Public Staff	Per Public
		Staff	Adjustments	Staff
Aqua water	3.81%	\$1,330,583	0.00%	3.81%
Aqua sewer	4.10%	\$559,639	0.00%	4.10%
Fairways/Beau Rivage water	6.99%	\$64,736	0.00%	6.99%
Fairways/Beau Rivage sewer	0.84%	\$15,228	0.00%	0.84%
Brookwood/LaGrange water	1.18%	\$59,837	0.00%	1.18%

14. It is appropriate to allow Aqua to implement the WSIC and SSIC percentages set forth above effective for service rendered on or after July 1, 2022, subject to true-up. The Public Staff will continue to review the justness, prudency, and reasonableness of these improvements during its review of Aqua's future WSIC and SSIC filings and in Aqua's next general rate case.

CONCLUSIONS

Based upon the foregoing, the Commission concludes that Aqua should be allowed to implement the WSIC and SSIC percentages recommended by the Public Staff and agreed to by Aqua effective for service rendered on and after July 1, 2022. These WSIC or SSIC rate adjustments, while allowed to become effective, are not unconditionally approved and will be subject to further examination for justness and reasonableness in the WSIC and SSIC annual review and reconciliation and in Aqua's next general rate case.

IT IS, THEREFORE, ORDERED as follows:

- 1. That Aqua is authorized to implement the recommended Water and Sewer System Improvement Charges set forth in the attached Appendix A-4 to Aqua's Schedule of Rates effective for service rendered on and after July 1, 2022, subject to true-up. The rates contained therein are provisional and subject to review in the WSIC and SSIC annual review and reconciliation and in Aqua's next general rate case;
- 2. That the attached Appendix A-4 is approved and is deemed filed with the Commission pursuant to N.C.G.S. § 62-138; and

3. That Aqua shall mail to each of its customers with the next regularly scheduled customer billing the Commission-approved customer notice, and Aqua shall file the attached Certificate of Service, properly signed and notarized, not later than 45 days after the issuance of this Order.¹

ISSUED BY ORDER OF THE COMMISSION.

This the 21st day of June, 2022.

NORTH CAROLINA UTILITIES COMMISSION

A. Shonta Dunston, Chief Clerk

A. Shorta (Durstan

¹ Three separate customer notices are attached hereto as Attachments A, B, and C, respectively. The separate customer notices are intended to minimize customer confusion. Aqua shall mail the appropriate customer notice to each of its customers with the next regular customer billing.

AQUA NORTH CAROLINA, INC. WATER AND SEWER SYSTEM IMPROVEMENT CHARGES

WATER SYSTEM IMPROVEMENT CHARGE

All Aqua water systems except as noted below	3.81% ^{1/, 2/}
Water systems in Brookwood and LaGrange service areas	1.18% ^{1/, 2/}
Water systems in Fairways and Beau Rivage service areas	6.99% ^{1/, 2/}
SEWER SYSTEM IMPROVEMENT CHARGE	
All Aqua sewer systems except as noted below	4.10% ^{3/} , ^{4/}
Sewer systems in Fairways and Beau Rivage service areas	0.84% ^{3/} , 4/

- The Water System Improvement Charge will be applied to the total water utility bill of each customer under the Company's applicable rates and charges.
- The Water System Improvement Charge includes the Experience Modification Factor that will go into effect on July 1, 2022, and will cease on June 30, 2023.
- The Sewer System Improvement Charge will be applied to the total sewer utility bill of each customer under the Company's applicable rates and charges.
- The Sewer System Improvement Charge includes the Experience Modification Factor that will go into effect on July 1, 2022, and will cease on June 30, 2023.

Issued in Accordance with Authority Granted by the North Carolina Utilities Commission in Docket No. W-218, Sub 526A on this the 21st day of June, 2022.

DOCKET NO. W-218, SUB 526A

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of	
Application by Aqua North Carolina, Inc.,)	
202 MacKenan Court, Cary, North Carolina) NOTICE TO CUSTOME	RS IN
27511, for Approval of Semiannual) BROOKWOOD / LAGR	ANGE
Adjustments to Water and Sewer System) SERVICE AREAS	
Improvement Charges pursuant to)	
N.C. Gen. Stat. § 62-133.12	

NOTICE IS HEREBY GIVEN that the North Carolina Utilities Commission (Commission) has issued an Order dated June 21, 2022, pursuant to N.C. Gen. Stat. § 62-133.12 and Commission Rules R7-39 and R10-26, authorizing Aqua North Carolina, Inc. (Aqua) to adjust its Water System Improvement Charge (WSIC) effective for service rendered on and after July 1, 2022, in Aqua's Brookwood/LaGrange service areas in Cumberland and Hoke Counties in North Carolina.

By Order entered in Docket No. W-218, Sub 363 on May 2, 2014, the Commission approved Aqua's request, pursuant to N.C.G.S. § 62-133.12, for authority to implement a semiannual water and sewer system improvement charge (WSIC/SSIC) adjustment mechanism designed to recover the incremental costs associated with eligible investments in certain water and sewer infrastructure improvement projects completed and placed in service between general rate case proceedings. The WSIC/SSIC mechanism is subject to Commission approval and to audit and refund provisions. Any cumulative system improvement charge recovered pursuant to the WSIC/SSIC mechanism may not exceed 7.5% of the total annual service revenues approved by the Commission in Aqua's last general rate case. WSIC and SSIC charges for Aqua were first approved by the Commission on December 22, 2014, effective January 1, 2015. The WSIC and SSIC procedures allow for semiannual adjustments to Aqua's rates every January 1 and July 1.

The Public Staff – North Carolina Utilities Commission (Public Staff) has reviewed Aqua 's updates. On June 3, 2022, the Public Staff filed its Notice of Public Staff's Plan to Present Comments and Recommendations at the Commission's June 20, 2022, Regular Staff Conference (Notice).

Based on the application filed by Aqua and the Public Staff's Notice and recommendations, the Commission has approved the following WSIC charge for the Brookwood and LaGrange service areas, effective for service rendered on and after July 1, 2022:

	Aqua	Public Staff	Commission
	Proposed	Recommended	Approved
	_ Percentage	Percentage	Percentage
WSIC	1.18%	1.18%	1.18%

The WSIC percentage of 1.18% will be applied to the water utility bill of each customer under Aqua's applicable service rates and charges.

The 1.18% WSIC percentage will result in an increase of \$0.46 to the monthly average residential bill for a customer using the average of 5,069 gallons per month.

Additional information regarding the WSIC/SSIC mechanism is contained in the Commission's Order issued May 2, 2014, in Docket No. W-218, Sub 363, the Commission's Order Adopting Rules to Implement N.C. Gen. Stat. § 62-133.12 issued June 6, 2014, in Docket No. W-100, Sub 54, Aqua 's WSIC/SSIC application filed on April 27, 2022, the Public Staff's Notice filed June 3, 2022, and the Commission's Order issued June 21, 2022, in Docket No. W-218, Sub 526A, all of which can be accessed from the Commission's website at www.ncuc.net, under Docket Portal, using the Docket Search feature for the docket numbers stated above (i.e., for Docket No. key: W-218 Sub 526A).

ATTACHMENT A PAGE 3 OF 3

Parties interested in receiving notice of these filings may subscribe to the Commission's electronic notification system through the Commission's website at www.ncuc.net.

ISSUED BY ORDER OF THE COMMISSION.

This the 21st day of June, 2022.

NORTH CAROLINA UTILITIES COMMISSION

A. Shonta Dunston, Chief Clerk

DOCKET NO. W-218, SUB 526A

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of		
Application by Aqua North Carolina, Inc.,)	
202 MacKenan Court, Cary, North Carolina)	NOTICE TO CUSTOMERS IN
27511, for Approval of Semiannual)	FAIRWAYS AND BEAU
Adjustments to Water and Sewer System)	RIVAGE SERVICE AREAS
Improvement Charges pursuant to)	
N.C. Gen. Stat. § 62-133.12)	

NOTICE IS HEREBY GIVEN that the North Carolina Utilities Commission (Commission) has issued an Order dated June 21, 2022, pursuant to N.C. Gen. Stat. § 62-133.12 and Commission Rules R7-39 and R10-26, authorizing Aqua North Carolina, Inc. (Aqua) to adjust its Water System Improvement Charge (WSIC) and Sewer System Improvement Charge (SSIC) effective for service rendered on and after July 1, 2022, in Aqua's Fairways and Beau Rivage service areas in New Hanover County, North Carolina.

By Order entered in Docket No. W-218, Sub 363, on May 2, 2014, the Commission approved Aqua's request, pursuant to N.C.G.S. § 62-133.12, for authority to implement a semiannual water and sewer system improvement charge (WSIC/SSIC) adjustment mechanism designed to recover the incremental costs associated with eligible investments in certain water and sewer infrastructure improvement projects completed and placed in service between general rate case proceedings. The WSIC/SSIC mechanism is subject to Commission approval and to audit and refund provisions. Any cumulative system improvement charge recovered pursuant to the WSIC/SSIC mechanism may not exceed 7.5% of the total annual service revenues approved by the Commission in Aqua's last general rate case. WSIC and SSIC charges for Aqua were first approved by the Commission on December 22, 2014, effective January 1, 2015. The WSIC and SSIC procedures allow for semiannual adjustments to Aqua's rates every January 1 and July 1.

The Public Staff – North Carolina Utilities Commission (Public Staff) has reviewed Aqua's WSIC and SSIC updates. On June 3, 2022, the Public Staff filed its Notice of Public Staff's Plan to Present Comments and Recommendations at the Commission's June 20, 2022, Regular Staff Conference (Notice).

Based on the application filed by Aqua and the Public Staff's Notice and recommendations, the Commission has approved the following WSIC and SSIC charges for Aqua's Fairways and Beau Rivage service areas, effective for service rendered on and after July 1, 2022:

	Aqua Proposed Percentage	Public Staff Recommended Percentage	Commission Approved Percentage
WSIC	6.99%	6.99%	6.99%
SSIC	0.84%	0.84%	0.84%

The WSIC percentage of 6.99% will be applied to the water utility bill of each customer, and the SSIC percentage of 0.84% will be applied to the sewer utility bill of each customer, under Aqua's applicable service rates and charges.

The approved 6.99% WSIC percentage will result in an increase of \$1.37 to the monthly average residential bill for a customer using the average of 7,151 gallons per month. The 6.99% WSIC percentage will also apply to the monthly bills for customers on water systems for which Aqua purchases bulk water.

The 0.84% SSIC percentage will result in a \$0.45 increase to the monthly residential customer flat rate sewer bill.

Additional information regarding the WSIC/SSIC mechanism is contained in the Commission's Order issued May 2, 2014, in Docket No. W-218, Sub 363, the Commission's Order Adopting Rules to Implement N.C. Gen. Stat. § 62-133.12 issued June 6, 2014, in Docket No. W-100, Sub 54, Aqua's WSIC/SSIC application filed on April 27, 2022, the Public Staff's Notice filed June 3, 2022, and the Commission's Order issued June 21, 2022, in Docket No. W-218, Sub 526A, all of which can be accessed from the Commission's website at www.ncuc.net, under Docket Portal, using the Docket Search feature for the docket numbers stated above (i.e., for Docket No. key: W-218 Sub 526A).

ATTACHMENT B PAGE 3 OF 3

Parties interested in receiving notice of these filings may subscribe to the Commission's electronic notification system through the Commission's website at www.ncuc.net.

ISSUED BY ORDER OF THE COMMISSION.

This the 21st day of June, 2022.

NORTH CAROLINA UTILITIES COMMISSION

A. Shonta Dunston, Chief Clerk

DOCKET NO. W-218, SUB 526A

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of		
Application by Aqua North Carolina, Inc.,)	
202 MacKenan Court, Cary, North Carolina)	NOTICE TO CUSTOMERS
27511, for Approval of Semiannual)	IN AQUA NORTH CAROLINA
Adjustments to Water and Sewer System)	UNIFORM RATES SERVICE
Improvement Charges pursuant to)	AREAS
N.C. Gen. Stat. § 62-133.12)	

NOTICE IS HEREBY GIVEN that the North Carolina Utilities Commission (Commission) has issued an Order dated June 21, 2022, pursuant to N.C. Gen. Stat. § 62-133.12 and Commission Rules R7-39 and R10-26, authorizing Aqua North Carolina, Inc. (Aqua) to adjust its Water System Improvement Charge (WSIC) and Sewer System Improvement Charge (SSIC) effective for service rendered on and after July 1, 2022, in its service areas in North Carolina.

By Order entered in Docket No. W-218, Sub 363, on May 2, 2014, the Commission approved Aqua's request, pursuant to N.C.G.S. § 62-133.12, for authority to implement a semiannual water and sewer system improvement charge (WSIC/SSIC) adjustment mechanism designed to recover the incremental costs associated with eligible investments in certain water and sewer infrastructure improvement projects completed and placed in service between general rate case proceedings. The WSIC/SSIC mechanism is subject to Commission approval and to audit and refund provisions. Any cumulative system improvement charge recovered pursuant to the WSIC/SSIC mechanism may not exceed 7.5% of the total annual service revenues approved by the Commission in Aqua's last general rate case. WSIC and SSIC for Aqua were first approved by the Commission on December 22, 2014, effective January 1, 2015. The WSIC and SSIC procedures allow for semiannual adjustments to Aqua's rates every January 1 and July 1.

The Public Staff – North Carolina Utilities Commission (Public Staff) has reviewed Aqua's updates. On June 03, 2022, the Public Staff filed its Notice of Public Staff's Plan to Present Comments and Recommendations at the Commission's June 20, 2022, Regular Staff Conference (Notice).

Based on the application filed by Aqua and the Public Staff's Notice and recommendations, the Commission has approved the following WSIC and SSIC charges for Aqua's uniform service areas, effective for service rendered on and after July 1, 2022:

	Aqua Proposed Percentage	Public Staff Recommended Percentage	Commission Approved Percentage
WSIC	3.81%	3.81%	3.81%
SSIC	4.10%	4.10%	4.10%

The WSIC percentage of 3.81% will be applied to the water utility bill of each customer, and the SSIC percentage of 4.10% will be applied to the sewer utility bill of each customer, under Aqua's applicable service rates and charges.

The approved 3.81% WSIC percentage will result in a \$1.97 increase to the monthly average residential bill for a customer using the average of 4,871 gallons per month. The 3.81% WSIC percentage will also apply to the monthly bills for customers on water systems for which Aqua purchases bulk water.

The approved 4.10% SSIC percentage will result in a \$3.09 increase to the monthly residential flat rate sewer bill. The 4.10% SSIC percentage will also apply to the monthly metered bills for customers on sewer systems for which Aqua purchases bulk sewer treatment.

Additional information regarding the WSIC/SSIC mechanism is contained in the Commission's Order issued May 2, 2014, in Docket No. W-218, Sub 363, the Commission's Order Adopting Rules to Implement N.C. Gen. Stat. § 62-133.12 issued June 6, 2014, in Docket No. W-100, Sub 54, Aqua's WSIC/SSIC application filed April 27, 2022, the Public Staff's Notice filed June 3, 2022, and the Commission Order issued June 21, 2022, in Docket No. W-218, Sub 526A, all of which can be accessed from the Commission's website at www.ncuc.net, under Docket Portal, using the Docket Search feature for the docket numbers stated above (i.e., for Docket No. key: W-218 Sub 526A).

ATTACHMENT C PAGE 3 OF 3

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ISSUED BY ORDER OF THE COMMISSION.

This the 21st day of June, 2022.

NORTH CAROLINA UTILITIES COMMISSION

A. Shonta Dunston, Chief Clerk