

NORTH CAROLINA UTILITIES COMMISSION
MINUTES OF REGULAR COMMISSION STAFF CONFERENCE

August 9, 2021

The Regular Commission Staff Conference of the North Carolina Utilities Commission was held on Monday, August 9, 2021, at 10:00 a.m., with Chair Mitchell, presiding.

The following were present:

COMMISSIONERS

Commissioner Brown-Bland
Commissioner Gray
Commissioner Clodfelter
Commissioner Duffley
Commissioner Hughes
Commissioner McKissick

COMMISSION STAFF: Ms. Fennell, Mr. McCoy

PUBLIC STAFF: Mr. Ayers, Ms. Jost, Mr. Creech, Ms. Coxton, Mr. Josey, Ms. Feasel, Mr. Saillor, Ms. Casselberry, Mr. Junis

ATTORNEY GENERAL:

COURT REPORTER: Ms. Mitchell

C. COMMUNICATIONS**P1. FILING OF INTERCONNECTION AGREEMENTS AND AMENDMENTS BY AT&T NORTH CAROLINA AND WINDSTREAM**

The following interconnection agreements and amendments were filed for Commission approval between June 3, 2021, and June 7, 2021:

BellSouth Telecommunications, LLC, d/b/a AT&T North Carolina

Docket No. P-55, Sub 1947 – Agreement with Crown Castle Fiber LLC, filed on June 3, 2021.

Docket No. P-55, Sub 1595 – Amendment filed on June 3, 2021, to an existing interconnection agreement with Spok Inc., formerly USA Mobility Wireless, Inc., approved on December 16, 2005. The amendment reflects the name change and adds the following sections to the existing agreement: Partner Delivery Service Arrangement, Insurance, and Subcontractors.

Docket No. P-55, Sub 1772 – Amendment filed on June 3, 2021, to an existing interconnection agreement with Peerless Network of North Carolina, LLC, approved on July 30, 2009. The amendment implements changes mandated by the Federal Communications Commission (FCC) in FCC 20-152, filed on January 8, 2021, in WC Docket No. 19-308 (the “FCC UNE Relief Order”). The FCC UNE Relief Order eliminates legacy unbundling of certain network elements, subject to certain conditions and multiyear transition periods, and resale rules where they stifle technology transitions and broadband deployment. Exhibit A to the amendment contains additional digital rate elements that are subject to the FCC UNE Relief Order.

Windstream Concord Telephone, LLC and Windstream Lexcom Communications, LLC

Docket No. P-16, Sub 271 & P-31, Sub 176 – Agreement with Teliax, Inc., filed on June 7, 2021.

These filings were made in compliance with Commission Rule R17-4(d) and Sections 252(e) and 252(i) of the Telecommunications Act of 1996. The Act provides for the filing of such agreements and amendments with the state commission and approval or rejection by the state commission within 90 days after filing. On June 18, 1996, the Commission issued an Order in Docket No. P-100, Sub 133, allowing interim operation under negotiated agreements filed as public records prior to Commission approval of the agreements.

The Public Staff has reviewed the filings and recommends Commission approval.

The Public Staff recommended that orders be issued approving the agreements and amendments effective on the date they were filed. The Public Staff has provided proposed orders to the Commission Staff.

It was moved and passed that the Public Staff's recommendation be adopted.

D. ELECTRIC

P1. APPLICATION FOR CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY TO CONSTRUCT SOLAR FACILITY

The following application seeks to amend and renew a certificate of public convenience and necessity for construction of a solar photovoltaic (PV) electric generating facility pursuant to N.C. Gen. Stat. § 62-110.1 and Commission Rule R8-64.

Duke Energy Progress, LLC:

- Docket No. SP-6512, Sub 0 – Application of BRE NC Solar 3, LLC, to amend and renew the certificate of public convenience and necessity to construct a 4.99-MW solar PV facility in Granville County, North Carolina. The amendment is requested to relocate the facility's point of interconnection. (registration statement issued previously)

The Public Staff has reviewed the application and determined that it complies with the requirements of N.C.G.S. § 62-110.1 and Commission Rule R8-64. The Applicant informed the Public Staff that construction has begun on the generating facility, consistent with the limited construction authority granted by the Commission

The Public Staff recommended that the Commission issue an order approving the application and issuing the requested amended and renewed certificate for the facility. A proposed order has been provided to the Commission Staff.

It was moved and passed that the Public Staff's recommendation be adopted.

E. WATER**P1. DOCKET NO. W-218, SUB 526A – AQUA NORTH CAROLINA, INC. – APPLICATION FOR APPROVAL OF WATER AND SEWER SYSTEM IMPROVEMENT RATE ADJUSTMENTS**

On April 28, 2021, Aqua North Carolina, Inc. (Aqua NC) filed an application requesting authority to adjust its Water System Improvement Charges (WSIC) and Sewer System Improvement Charges (SSIC) effective July 1, 2021, pursuant to Commission Rules R7-39(f) and R10-26(f) (Application).

On June 21, 2021, the Public Staff – North Carolina Utilities Commission (Public Staff) filed its Notice of Public Staff's Plan to Present Comments and Recommendations at the Commission's July 6, 2021, Regular Staff Conference (Notice).

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 mechanisms since the conclusion of the Sub 526 Rate Case.

The implementation of the WSIC and SSIC for Aqua NC was first approved by the Commission on December 22, 2014, effective January 1, 2015. The WSIC and SSIC procedures allow for semi-annual adjustments to Aqua NC'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.

Aqua NC requests authority to impose the following WSIC and 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%

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 went into effect on July 1, 2021. The impact of the 2020 EMF on Aqua NC's requested WSIC and SSIC percentages is as follows:

	<u>WSIC/SSIC Percentage</u>	<u>2020 Experience Modification Factor</u>	<u>Cumulative WSIC/SSIC Percentage</u>
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:

	<u>Previously Approved WSIC/SSIC Revenue Requirement</u>	<u>Net Change to WSIC/SSIC Revenue Requirement</u>	<u>Cumulative WSIC/SSIC Revenue Requirement</u>
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:

	<u>Sub 526 Annual Service Revenues</u>	<u>Maximum WSIC/SSIC Percentage</u>	<u>Maximum WSIC/SSIC Revenue Requirement</u>
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 requirement 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 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 Order 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

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,

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

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

(2) Correction to accumulated deferred income tax (ADIT) – The ADIT calculation for Fairways & Beau Rivage Water is overstated due to the understatement of the average amount of accumulated depreciation discussed in item (1) above. The ADIT calculation for Fairways & Beau Rivage Sewer is understated because Aqua NC used tax reserve as of December 31, 2021, instead of average tax reserve, to calculate ADIT. Aqua NC agrees with this adjustment.

(3) Correction to annual depreciation – The amount of annual depreciation expense for Fairways & Beau Rivage Water is 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. Aqua NC agrees with this adjustment.

(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 is 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 believe 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,¹ 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 recommends removing half of these engineering costs, or \$1,400, from the water main relocation project and added them to the sewer force main relocation project. Aqua NC agrees with this adjustment.

(6) Adjustment to NCDOT sewer force main relocate project – Aqua NC included \$23,522 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. In its Notice, the Public Staff stated that it removed repair and pump and haul costs in the amount of \$28,411 on the grounds that the contractors who caused the damage or the party responsible for locating and marking the sewer force main should be held accountable for these costs. Based on subsequent discussions between the Public Staff and Aqua NC and additional information supplied by Aqua NC, the Public Staff agrees that its recommended adjustment should be reduced to \$23,522, and Aqua NC agrees with this adjustment. The Public Staff is still evaluating the reasonableness of upsizing the former 12-inch sewer force main to a 16-inch diameter pipe.

(7) Adjustment to 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). In its Notice, the Public Staff removed all costs associated with the project due to the chronology of the improvements, lack of cohesion between the separate improvements, and insufficient explanation/documentation provided by Aqua to date. Based on additional information supplied by Aqua NC, the Public Staff recommends that \$2,207 of Allowance for Funds Used During Construction² (AFUDC) should be

¹ The Public Staff filed Initial Comments in Docket No. W-218, Sub 526A on April 19, 2021, and Reply Comments on June 7, 2021.

² The Willow Creek LS project consists of two distinct “improvements” in chronology and geography, which were (1) the realignment and cured-in-place pipe lining of a gravity sewer main near Westchester Country Day School completed in November 2019 and (2) sewer line point repairs along Dorado Drive and Lost Tree Lane completed in December 2020. These projects were the result of two

disallowed and \$81,679 should be included as costs eligible for SSIC recovery in the Uniform Sewer division.

(8) Adjustment to reclassify the Saddleridge L/S Full Rehab project to the correct utility account – Aqua NC included \$28,810 of the project costs in utility account (UT) 354200-Structures and Improvements used to calculate the SSIC revenue requirement for Uniform Sewer operations. Based on discussions between the Public Staff and Aqua NC and additional information supplied by Aqua NC, the parties agree that the \$28,810 in project costs should be reclassified and included in UT 371000-Pumping Equipment.

(9) Adjustment to remove a duplicate payment from Lake Springs FeMn Filter project – Aqua NC inadvertently made a double payment in the amount of \$2,160 to Water Systems Engineering, Inc., and included that expenditure twice in plant in service used to calculate the WSIC revenue requirement for Uniform Water operations. The Public Staff identified the double payment and Aqua NC promptly requested and has received a refund from the vendor. The Public Staff removed this duplicate payment, and Aqua NC agrees with this adjustment.

The impact of the adjustments discussed in items (1) through (9) above increases the overall revenue requirement for Fairways & Beau Rivage Water operations and decreases the overall revenue requirement for Fairways & Beau Rivage Sewer 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 current overall revenue requirement for Aqua Sewer operations is decreased to \$459,070 and the proposed SSIC percentage is updated from 3.08% to 3.01% after accounting for the EMF. However, the proposed SSIC percentage for Fairways & Beau Rivage Sewer 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 is concerned about the prudence and reasonableness of the 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 the 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 is Aqua NC's next general rate case.

distinct investigations performed in June 2019 and March 2020, respectively. Booking the successive improvements as one project without discontinuing or halting the accrual of AFUDC resulted in unreasonable costs.

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 NC:

	WSIC/SSIC Percentage Per Aqua NC	WSIC/SSIC Revenue Requirement Per Public Staff	Impact of Public Staff Adjustments	WSIC/SSIC Percentage Per Public Staff
Uniform water	1.66%	\$655,020	0.00%	1.66%
Uniform sewer	3.08%	\$521,830	-0.07%	3.01%
Fairways/Beau Riv. water	5.06%	\$57,985	0.04%	5.10%
Fairways/Beau Riv. sewer	0.59%	\$12,024	0.00%	0.59%
Brookwood/LaGrange water	0.63%	\$38,476	0.00%	0.63%

The Public Staff recommends that Aqua NC be allowed to implement the Public Staff's proposed WSIC and SSIC percentages effective for service rendered on or after the date of the Commission's order, subject to true-up, and that Aqua NC be allowed to retrospectively charge customers for the approved surcharges through the EMF calculation for the period July 1, 2021, through the date of the Commission's order. 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.

The Public Staff recommended that the Commission issue the proposed order approving the Public Staff's proposed water and sewer system improvement charges effective for service rendered on or after the date of its order, subject to true-up; allowing Aqua NC to retrospectively charge customers for the approved surcharges through the EMF calculation for the period July 1, 2021, through the date of the Commission's order; and requiring customer notice.

Jo Anne Sanford, Shannon Becker, Michael Melton, and Joseph Pearce appeared on behalf of Aqua NC and responded to questions from the Commission.

This item was taken to Executive Conference for further consideration.

Minutes of the Regular Commission Staff Conference of August 2, 2021, were approved.

Minutes prepared by Portia Barnes.