

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. W-218, SUB 526

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of
Application by Aqua North Carolina, Inc.,) THIRD PROGRESS REPORT
202 MacKenan Court, Cary, North Carolina) REGARDING DEVELOPMENT
27511, for Authority to Adjust and Increase) OF A MUTUALLY AGREEABLE
Rates for Water and Sewer Utility Service) NON-REVENUE PURCHASED
in All Its Service Areas in North Carolina) WATER STANDARD

NOW COME the Public Staff – North Carolina Utilities Commission (Public Staff) and Aqua North Carolina, Inc. (Aqua or the Company), hereinafter collectively referred to as the Parties, by and through the undersigned counsel, and file this Third Progress Report Regarding Development of a Mutually Agreeable Non-Revenue Purchased Water Standard (Third Progress Report), as discussed below.

I. Background

1. In its Order Approving Partial Settlement Agreement and Stipulation, Deciding Contested Issues, Granting Partial Rate Increase, and Requiring Customer Notice issued on October 26, 2020, in Docket No. W-218, Sub 526 (Rate Case Order), the Commission ordered as follows:

16. That Aqua NC and the Public Staff shall develop a mutually-agreeable purchased water loss standard based upon the methodology for purchased water systems set forth in Aqua NC's Pearce and Kunkel rebuttal testimony for implementation in the Company's next general rate case and report on the progress of those discussions to the Commission within nine months of this Order.

Rate Case Order at 170.

2. In the Memorandum of Understanding (MOU) by and between the Public Staff and Aqua filed on May 26, 2021, in Docket No. W-218, Sub 526, the Parties stated as follows:

10. Aqua NC anticipates internal M36 Water Audits for calendar year 2020 will be completed for systems that exceeded 15% water loss by May 31, 2021. Aqua NC will provide the results of the internal M36 Water Audits and the Company's analysis of those results to the Public Staff no later than July 15, 2021. The Parties will file a progress report on the development of a mutually-agreeable water loss standard based on the M36 Water Audits no later than August 31, 2021, and every six months thereafter until the expiration of the two-rate case interim period.

MOU at 5.

3. In its Order Accepting Memorandum of Understanding Concerning Non-Revenue Purchased Water issued on July 27, 2021, in Docket No. W-218, Sub 526 (Order Accepting MOU), the Commission stated as follows:

Finally, the Commission understands the Parties' mutual agreement that data supporting development of a standard based on the Company's rebuttal testimony is not currently available and that an interim standard is needed for the period of time during which such data will be obtained and analyzed. However, the Commission is concerned about the Parties' defining the time period to acquire the necessary data as two rate cases rather than as the actual time that it will take to acquire and analyze the data. A period of two rate cases is vague and uncertain because the timing of rate cases is generally within the Company's control or discretion, i.e., there is no date certain when rate cases must be filed. Thus, the Commission directs the Parties to provide in their first report regarding non-revenue purchased water, to be filed no later than August 31, 2021, information explaining their rationale and basis for selecting a two-rate case period for application of the 20% interim non-revenue purchased water standard as opposed to a more definite time and to explain further why the interim standard would necessarily need to be applied to more than one future rate case. If there is good and sufficient reason for the two-rate case interim standard, the report should also discuss assurances that the actual time before applying a non-revenue purchased water standard based on actual data in the third future rate case will not be unreasonably vague and

indefinite. The Parties are also directed to include in their August 31, 2021 report a specific date or actual timeframe by which they anticipate reaching a final mutually agreeable non-revenue purchased water standard based on the methodology set forth in Aqua NC witnesses Pearce's and Kunkel's rebuttal testimony in the last general rate case.

Order Accepting MOU at 4-5.

4. On August 30, 2021, the Parties filed their Initial Progress Report Regarding Development of a Mutually Agreeable Non-Revenue Purchased Water Standard (Initial Progress Report). The Initial Progress Report summarized the activities undertaken by the Parties in furtherance of the development of a mutually-agreeable water loss standard, including meetings between Aqua and Public Staff personnel, and the Parties' review of information from purchased water systems with greater than 15% non-revenue water. The Initial Progress Report also included responses to the Commission's directives.

5. On February 28, 2022, the Parties filed their Second Progress Report Regarding Development of a Mutually Agreeable Non-Revenue Purchased Water Standard (Second Progress Report). The Second Progress Report summarized the activities undertaken by the Parties in furtherance of the development of a mutually-agreeable water loss standard, including meetings between Aqua and Public Staff personnel, and the Parties' review of information from purchased water systems with greater than 15% non-revenue water.

II. Progress Report

On May 26, 2022, Aqua provided the Public Staff with its internal M36 Water Audits of 2021 data for a total of 14 purchased water systems that had greater than 15% non-revenue water. On August 16, 2022, Aqua provided the Public Staff with

an updated audit summary and research provided by George Kunkel, P.E., of Kunkel Water Efficiency Consulting, consisting of audit data specific to small water systems in Pennsylvania.

On August 18, 2022, Lindsay Darden, Public Utilities Engineer for the Public Staff Water, Sewer, and Telephone Division, and Joseph Pearce, Director of Operations for Aqua, met virtually to discuss non-revenue water and the available data, including the recently available small system water audit data from Mr. Kunkel. The 2021 water audits were discussed and compared to the 2020 data. Aqua proposed analysis metrics which would serve as revenue adjustment thresholds. Analysis metrics for specific systems were compared to the overall percentage of non-revenue water. The Parties agreed that additional data from future water audits needs to be analyzed to determine whether Aqua's proposal captures a revenue adjustment that is fair to customers and the Company. The Parties also agreed to further discuss at the next meeting the calculations for determining the revenue adjustment with Aqua's proposed metrics.

Aqua shared with the Public Staff past and current measures taken by the Company to address non-revenue water, as well as alternatives that have been developed and analyzed. Aqua provided estimated project costs for complete system-wide main replacement for the Greenfield and Heritage Farms water systems, and the Parties discussed the impact of those costs on rates, benefits to customers, and cost recovery.

As stated above, Aqua presented a new data set provided by Mr. Kunkel, comparing the AWWA Water Audit Reference Dataset (WARD) key performance

indicators with Pennsylvania very small water system water audit indicators. The WARD data consists of 1,124 systems and the Pennsylvania very small system data consists of 15 systems with fewer than 1,000 service connections each. The Public Staff is still in the process of evaluating this information.

Mr. Pearce confirmed in the meeting that Aqua expects internal M36 Water Audits for calendar year 2022 to be completed by March 31, 2023, for systems exceeding 15% non-revenue water, and that Aqua will provide the results and the Company's analysis of those results to the Public Staff no later than May 31, 2023. The 2022 data will be analyzed together with previous years and potentially multiple subsequent years of data to determine the repeatability and reliability of the water audits.

WHEREFORE, the Public Staff and Aqua request that the Commission review this Third Progress Report and accept the content herein as responsive to the Commission's directives in its Order Accepting MOU.

Respectfully submitted, this the 30th day of August, 2022.

ATTORNEY FOR THE PUBLIC STAFF

/s/ Megan Jost
Staff Attorney
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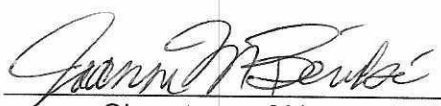
VERIFICATION

STATE OF NORTH CAROLINA)
)
 COUNTY OF WAKE)

Lindsay Q. Darden, first being duly sworn, deposes and says that she is a Utilities Engineer with the Water, Sewer, and Telephone Division, Public Staff – North Carolina Utilities Commission, that as such, she has read the foregoing Third Progress Report Regarding Development of a Mutually Agreeable Non-Revenue Purchased Water Standard, and knows the contents thereof; that the same are true of her own knowledge except as to those matters stated therein on information and belief, and as to those she believes them to be true.


 Lindsay Q. Darden

Sworn to and subscribed before me,
 this 29th day of August, 2022.


 Signature of Notary Public

Joanne M. Berube
 NOTARY PUBLIC
 WAKE COUNTY, N.C.
 My Commission Expires 12-17-2022.

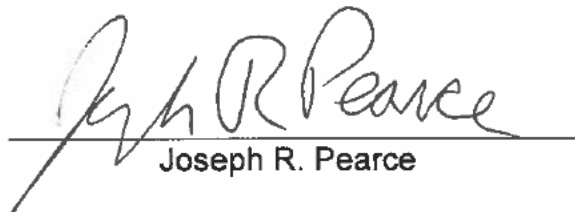
JOANNE M BERUBE
 Name of Notary Public – Typed or Printed

My Commission Expires: 12/17/2022

VERIFICATION


STATE OF NORTH CAROLINA)
)
COUNTY OF WAKE)

Joseph R. Pearce, first being duly sworn, deposes and says that he is the Director of Operations of Aqua North Carolina, Inc., that as such, he has read the foregoing Third Progress Report Regarding Development of a Mutually Agreeable Non-Revenue Purchased Water Standard, and knows the contents thereof; that the same are true of his own knowledge except as to those matters stated therein on information and belief, and as to those he believes them to be true.



Joseph R. Pearce

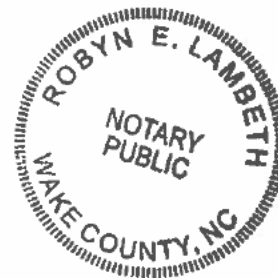
Sworn to and subscribed before me,
this 30th day of August, 2022.



Signature of Notary Public

Robyn E. Lambeth

My Commission Expires: May 13 2026



CERTIFICATE OF SERVICE

I certify that I have served a copy of the foregoing Third Progress Report Regarding Development of a Mutually Agreeable Non-Revenue Purchased Water Standard on all parties of record in accordance with Commission Rule R1-39, by United States mail, postage prepaid, first class; by hand delivery; or by means of facsimile or electronic delivery upon agreement with the receiving party.

This the 30th day of August, 2022.

Electronically submitted
/s/ Megan Jost
Staff Attorney