



**NORTH CAROLINA
PUBLIC STAFF
UTILITIES COMMISSION**

February 2, 2023

Ms. A. Shonta Dunston, Chief Clerk
North Carolina Utilities Commission
4325 Mail Service Center
Raleigh, North Carolina 27699-4300

Re: Docket No. W-218, Sub 573 – Late Filed Exhibits of the Public Staff

Dear Ms. Dunston:

Attached for filing in connection with the above-referenced docket are the late filed exhibits requested by the Commission from Public Staff witnesses during the expert witness hearing in the above-referenced docket.

By copy of this letter, I am forwarding copies to all parties of record.

Sincerely,

/s/ Megan Jost
Staff Attorney
megan.jost@psncuc.nc.gov

Enclosures
cc: Parties of Record

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Docket No. W-218, Sub 573
Aqua North Carolina, Inc. Rate Case
Public Staff Late Filed Exhibit No. 1

Response to question from opposing counsel to Public Staff witness Lynn Feasel whether the Public Staff assigned the gain and any loss on sale of four systems listed on page 12 of the Joint Testimony of Public Staff Witnesses Feasel, Chiu, and Boswell “100 percent to the shareholders?” Presiding Commissioner Brown-Bland subsequently endorsed the request.

Response:

On page 210, lines 22-24 of Transcript Volume 7, Mr. Drooz asked Public Staff witness Feasel, “regarding the gain on sale, did you assign the gain and any loss to 100 percent to the shareholders?”

The Public Staff did not adjust revenues with regard to the Company’s gains on the sale of the Shepherds Way and The Oaks at Hunter Hill systems because, as discussed in the prefiled direct testimony of Aqua witness Gearhart, Aqua made an adjustment to remove the gain on the sale of those systems and three well lots the Company sold at a gain.

The Public Staff agrees that it was appropriate to remove the gains on the sales of Shepherds Way and The Oaks at Hunter Hill as the removal is consistent with the Commission’s order regarding the transfer of these systems and with the Commission’s longstanding policy that 100% of the gains and losses on sale should generally be assigned to the utility company’s shareholders. In Paragraph Six of its *Order Approving Transfer To Owner Exempt From Regulation, Canceling Franchises, and Requiring Customer Notice* issued in the Sub 544 Docket on March 15, 2021, the Commission noted that:

The issue of treatment of gain on sale for water and sewer utility companies has been addressed by the Commission in a number of prior dockets. In particular, in Docket Nos. W-354, Subs 133 and 134, in the September 7, 1994 Order Determining Regulatory Treatment Of Gain On Sale Of Facilities, the Commission concluded that, “in future proceedings, the Commission will follow a policy, absent overwhelming and compelling evidence to the contrary, of assigning 100% of the gain or loss on the sale of water and/or sewer utility systems to utility company shareholders.” Since

1994, the Commission has applied this policy of awarding 100% of the gain or loss on sale of water and sewer systems to the utility company's shareholders."

In the following paragraph, the Commission found that:

The pertinent facts with respect to Aqua's transfer of its Shepherds Way and The Oaks at Hunter Hill systems to the County are not materially different from those with respect to the sales that were the subject of the Commission's prior rulings on treatment of gain on sale in connection with water and sewer transfer applications decided in 1994 and thereafter. An exception to the Commission's policy of assigning 100% of the gain on sale to water and sewer utility company shareholders is not warranted in this proceeding, as the larger public interest is best served by continuing such policy. Accordingly, the gain on sale of the Shepherds Way and The Oaks at Hunter Hill systems should be assigned 100% to Aqua's shareholders.

Finally, in Ordering Paragraph 4, the Commission ordered "[t]hat 100% of the gain on sale of the public water utility systems owned by Aqua, which serve the Shepherds Way and The Oaks at Hunter Hill, shall be assigned to Aqua's shareholders."

Regarding the pending transfer of the Northgate system in Wake County to the Town of Fuquay-Varina via Lear Corporation filed in Docket No. W-218, Sub 551, the Company indicated in response to Public Staff Data Request 57, Question 4, that it had removed system assets in December 2021 and the plant investment value as of August 31, 2022 was \$0. The Public Staff did not recommend any additional rate base related adjustments associated with Northgate.

Regarding the Lakewood system in Gaston County, the remaining customers being connected to Two Rivers Utilities is reasonably known and measurable.¹ The Company indicated in response to Public Staff Data Request 57, Question 3, that the present net plant investment value of the system assets as of August 31, 2022, was provided in response to Public Staff Data Request 56. Based on that response, the Public Staff calculated the removal adjustment by allocating the Company's net plant investment in Lakewood by NARUC plant account, similar to Northgate. The workpaper titled "Copy

¹ Tr. Vol. 7, page 21, line 6, through page 23, line 10.

of DR 57 Q4 - Northgate NBV_Lakewood.xlsx" was provided to the Company and the Commission.

To neutralize the impact of these systems no longer serving Aqua customers for ratemaking purposes, the revenues the utility will no longer collect, the plant no longer providing service, and ongoing O&M expenses the utility will no longer incur must be excluded from the Company's revenues, rate base, and expenses, respectively. The removal of revenues was addressed by Public Staff witness Lindsay Q. Darden. The simplest way to effectuate the exclusion of rate base and expenses in the rate case proceeding is to remove the rate base (most of which was already addressed by the Company as described above) and expenses from the revenue requirement requested. The Company did not remove the avoided ongoing expenses related to the Shepherds Way, The Oaks at Hunter Hill, Lakewood, and Northgate systems. An adjustment to remove those ongoing expenses was, therefore, necessary.

The Public Staff addressed the Company's failure to track and remove those avoided O&M expenses by increasing miscellaneous revenue. The increase in miscellaneous revenue will offset the O&M expenses that should not have been included in the Company's application. The exclusion had to be accomplished in this manner because (1) the Company chose not to provide itemized expenses for those systems and (2) there are no generic expense categories that can be used for amalgamations of O&M expenses.

Docket No. W-218, Sub 573
Aqua North Carolina, Inc. Rate Case
Public Staff Late Filed Exhibit No. 2

Response to request by presiding Commissioner Brown-Bland that the Public Staff panel of witnesses Boswell, Hinton, Junis, and Zhang for a late-filed exhibit on the status of Docket No. W-218, Subs 570 and 571.

Response:

In Docket No. W-218, Sub 571, the Public Staff provided the Company with proposed regulatory conditions for its review on March 24, 2022. Also on March 24, 2022, the Public Staff informed the Company that the only issues it noted based on its review of the proposed Affiliated Interest Agreement (AIA) between Aqua Services, Inc., and Aqua North Carolina Inc., filed in Docket No. W-218, Sub 570 were two spelling errors. On the same date, the Public Staff recommended that, once the parties reached an agreement on the regulatory conditions, the parties should file a joint motion and proposed order approving the reorganization (Sub 571) and AIA (Sub 570). The Public Staff did not receive any feedback on its proposed regulatory conditions until the Company filed proposed revisions as Exhibit 7 to the rebuttal testimony filed in the rate case by its witnesses Becker, Packer, Kellett, and Melton on December 19, 2022.