

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. W-218, SUB 497

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of		
Application by Aqua North Carolina, Inc.,)	ORDER CLARIFYING
202 MacKenan Court, Cary, North Carolina)	CALCULATION OF REFUND
27511, for Authority to Adjust and Increase)	OF STATE AND
Rates for Water and Sewer Utility Service in)	UNPROTECTED FEDERAL
All Service Areas in North Carolina)	EXCESS DEFERRED INCOME
)	TAXES

BY THE COMMISSION: On December 18, 2018, the Commission issued an Order Approving Partial Settlement Agreement and Stipulation, Granting Partial Rate Increase, and Requiring Customer Notice (Order) in the above-captioned docket, a general rate case proceeding for Aqua North Carolina, Inc. (Aqua NC or Company). With regard to Aqua NC's unprotected federal excess deferred income taxes (EDIT) and state EDIT addressed in this general rate case proceeding, on Pages 135-136 of its Order, the Commission concluded that it was appropriate to accept and approve the Partial Settlement Agreement and Stipulation (Stipulation) by Aqua NC and the Public Staff filed on September 17, 2018. The following language was included in the Commission's Order:

. . .

3. The Company's unprotected federal EDIT shall be returned to ratepayers through a levelized rider over a period of three years.

. . .

5. The Company's state EDIT recorded pursuant to the Commission's Order Addressing the Impacts of HB 998 on North Carolina Public Utilities issued May 13, 2014, in Docket No. M-100, Sub 138 shall be returned to ratepayers through a levelized rider that will expire at the end of a three-year period.

After the Order was issued, Aqua NC sought informal clarification of the term "levelized rider" as it was used by the Commission. Specifically, Aqua NC communicated by email to the Commission and all parties that it sought clarification of whether "levelized rider" meant monthly refunds over the three-year period based on a flat (equal) per customer rate or monthly refunds over the three-year period based upon a calculation utilizing the customer's total service bill (base and commodity charges). Aqua NC stated its interpretation of such wording is that a flat per customer rate over the three-year period would be appropriate.

The Attorney General's Office (AGO) argued that the return of the EDIT using a flat per customer rate would more fairly spread the effects of the rider to reduce the customer's monthly base charge than a method based upon the percentage of the customer's total service bill. Further, the AGO expressed the view that lower fixed monthly charges tend to be less burdensome for low income and elderly consumers.

The Public Staff – North Carolina Utilities Commission (Public Staff) responded that basing the amount returned on customers' total service bills is the most fair and equitable method of returning the EDIT because it most nearly approximates the manner in which the EDIT was collected from customers. The more a customer paid in service charges, the more he or she contributed to EDIT collected by Aqua NC, and the amount contributed should be reflected in the amount returned. The Public Staff commented that a rider based on total service bills, as the Public Staff recommends, would be calculated as a percentage for each rate entity in a manner similar to that used to calculate the Company's water system improvement charge (WSIC) and sewer system improvement charge (SSIC) surcharges.

Regarding Aqua NC's request for clarification of the meaning of "levelized rider" with respect to the refunds of the unprotected federal EDIT and state EDIT, in the December 18, 2018 Order, the Commission adopted such wording from Page 9, Section III, Paragraphs II. and JJ. of the Stipulation. In adopting the language agreed upon by the Public Staff and Aqua NC, the Commission accepted and intended the term "levelized rider" to mean the total dollar amount of the refunds of EDIT, including carrying costs calculated utilizing an annuity factor based upon the capital structure and cost rates for debt and common equity (net of tax) approved in the Commission's Order, divided equally over a three-year period—not to mean a flat per customer monthly refund amount. The Commission hereby clarifies its Order concerning the refunds to customers of the unprotected federal EDIT and the state EDIT accordingly.

Further, the Commission agrees with the Public Staff that basing the amounts to be refunded on customers' total service bills rather than on a flat per customer rate is the fairer and more equitable method of returning the EDIT because it most nearly approximates the manner in which the EDIT was collected from customers. Consequently, the Commission finds and concludes that the total dollar amount of the EDIT refunds shall be equally divided over a three-year period and the monthly refunds to customers over the three-year period shall be calculated based upon each customer's total service bill, which includes base and commodity charges.

IT IS, THEREFORE, SO ORDERED.

ISSUED BY ORDER OF THE COMMISSION.

This the 28th day of December, 2018.

NORTH CAROLINA UTILITIES COMMISSION



Janice H. Fulmore, Deputy Clerk