

**STATE OF NORTH CAROLINA  
UTILITIES COMMISSION  
RALEIGH**

**DOCKET NO. W-354, SUB 400**

**BEFORE THE NORTH CAROLINA UTILITIES COMMISSION**

In the Matter of	
Application by Carolina Water Service, Inc.	)
of North Carolina for Authority to Adjust	) PUBLIC STAFF
and Increase Rates and Charges for Water	) RECOMMENDATIONS
and Sewer Utility Service in All Service	) REGARDING PERFORMANCE-
Areas of North Carolina and Approval of a	) BASED METRICS
Three-Year Water and Sewer Investment	)
Plan	)

NOW COMES THE PUBLIC STAFF - North Carolina Utilities Commission (Public Staff), by and through its Executive Director, Chris Ayers, and respectfully requests the North Carolina Utilities Commission (Commission) to consider its recommendations in making a final decision regarding the performance-based metrics to be implemented by Carolina Water Service, Inc. of North Carolina (CWSNC or Company) and approved by the Commission and shows as follows:

**I. Background**

On July 1, 2022, CWSNC filed an application with the Commission seeking authority to increase its rates for providing water and sewer utility service in all of its service areas in North Carolina and for approval to establish and implement a Water and Sewer Investment Plan (WSIP) pursuant to N.C. Gen. Stat. § 62-133.1B and Commission Rule R1-17A (Application).

On November 22, 2022, CWSNC and the Public Staff (Parties) filed a Joint Partial Settlement Agreement and Stipulation (Stipulation). This Stipulation settles

all the issues in this docket except for (1) the return on equity to be authorized for CWSNC during the term of the WSIP; and (2) whether the 5% revenue requirement increase cap required by N.C. Gen. Stat. § 62-133.1B(c) should be applied on a per company or per rate division basis.

Section II.G of the Stipulation provides that the following performance metrics shall be adopted in this case and reported on a basis consistent with R1-17A Rules:

Description	Measure
Safe Drinking Water Compliance	<p>% days in compliance – (sum of all days – sum of all days out of compliance) / sum of all days</p> <p>Sum of all days = No. of systems x 365 days</p>
Clean Wastewater Compliance	<p>% days in compliance – (sum of all days – sum of all days out of compliance) / sum of all days</p>
Timely Answering of Customer Calls	<p>Telephone service factor – calls answered within 60 seconds / total calls answered (tracked by quarter)</p>
Water Service Quality Customer Complaints	<p>Non-bill related customer complaints in specific categories (no water, air in water, discolored water, high/low pressure, mineral amount, taste/odor, and water quality) / (active accounts / 1,000)</p> <p>Underlying data should incorporate subdivision and system name.</p>
Water Service Disruptions	<p>Unplanned water service disruption – recorded Lucity water main breaks / 1,000 accounts</p>
Sewer Overflows	<p>Number of sanitary sewer overflows (SSOs) – wastewater SSOs / (100 miles of gravity line)</p>
Employee Safety	<p>OSHA incident rate – (number of injuries and illnesses *200,000 / 4) / employee hours worked</p>
Employee Training	<p>Employee training – hours of employee training / employee</p>
Timely Completion of CIP Projects	<p>Percentage of CIP Program projects in the approved WSIP incomplete during the planned rate year on a Company basis</p>
Completion of CIP Projects on Budget	<p>Percentage of CIP Program projects that cost in excess of 110% of the estimate in the approved WSIP on a Company basis</p>

Expense Efficiency	Operation & Maintenance expense per Equivalent Residential Connection (ERC) on a Company basis, excluding certain accounts outside of management control (Purchased Water / Sewer Treatment, Purchased Power, etc.)
Utilization of the SRF Program	Whether the Company applied for SRF funds for certain eligible projects approved in the WSIP.
Water Loss	Water produced/purchased – water sold / water produced/purchased
Employee Turnover	Number of employees that leave / total number of employees for same time period

Pursuant to the Stipulation, the Parties agreed to work together to develop incentives or penalties to accompany these performance metrics, as applicable. The Stipulation further provided, “The Stipulating Parties shall file any such adjusted and agreed-upon performance metrics and penalties/incentives with the Commission no later than 180 days after the date of the Commission’s order in this proceeding and shall request that the Commission approve the same. If agreement cannot be reached, the Stipulating Parties shall notify the Commission by that same date of their respective recommendations and the Commission shall set the matter for further hearing. Any penalties/incentives for performance metrics approved by the Commission shall be retroactive to the beginning of WSIP Rate Year 1.”

An expert witness hearing convened as scheduled on November 28, 2022, and adjourned on November 29th. CWSNC and the Public Staff filed on February 2, 2023, their respective proposed orders, which largely tracked each other except for the findings, discussions, and conclusions concerning the two disputed issues and the resulting revenues, revenue requirements, and rates, which will

be provided by the Public Staff upon issuance of a final Commission order in this docket. Additionally, the Parties acknowledged in their proposed order filings that they understood the Commission's expectations that a WSIP should include PBMs and penalties and incentives; and, therefore, they committed to the Commission to attempt to reach a consensus on these issues and file joint or separate supplements to their Proposed Order (or Orders), by March 17, 2023, to address those topics sooner than had been agreed upon by the Parties in the Settlement Agreement.

After the Parties filed Proposed Orders, they met several times to discuss their respective recommendations regarding appropriate PBMs and incentives and penalties. Unfortunately, CWSNC and the Public Staff were unable to reach total agreement on all proposed PBMs, incentives, and penalties within the agreed upon time.

## **II. Recommendations**

Pursuant to the agreement of the Parties in the Stipulation and the commitment made to the Commission, the Public Staff hereby files its separate recommendations regarding PBMs, incentives, and penalties, which are embodied in a table, Public Staff PBM Exhibit 1 (Exhibit 1), which is attached hereto. Exhibit 1 shows the Public Staff's revisions to the PBMs that were originally included in the Stipulation and includes incentives and penalties for certain metrics, and refinements and additions to metrics contained in the Stipulation. Additionally, Exhibit 1 shows changes in black-lined format, and shaded columns indicate the

measures, penalties, or incentives with which the Public Staff and CWSNC disagree.

### III. Conclusion

N.C. Gen. Stat. § 62-133.1B.(a) provides in pertinent part that a “Water and Sewer Investment Plan, as filed by a water or sewer utility, **shall include performance-based metrics that benefit customers and ensure the provision of safe, reliable, and cost-effective service** by the water or sewer utility” (emphasis added).

Commission Rule R1-17A(b)(1) provides the following definition:

Performance-based metrics” shall mean **standards to measure utility operations and management, including the management of capital investment projects, intended to benefit customers by ensuring the provision of safe, reliable, and cost-effective service** by the utility. Metrics may also be standards that are intended to drive utility performance or support Commission policy goals provided that they benefit customers by ensuring the provision of safe, reliable, and cost-effective service. In establishing performance-based metrics, the Commission may consider, at a minimum, **operational compliance, customer service, service reliability, and workplace health and safety**. Performance-based metrics shall be clearly defined, measurable, and easily verified by stakeholders. The Commission may approve penalties or incentives based on the results of approved metrics. Some metrics may be tracking metrics with or without targets or benchmarks to measure utility achievement. (Emphasis added).

The Commission’s Order Adopting Commission Rule R1-17A in Docket No. W-100, Sub 63, provides in pertinent parts as follows:

The Companies state that the intent of performance-based metrics under the WSIP Statute is to **incentivize water and sewer utilities to continuously strive for better performance**.

Further, the Commission concludes that an incentive mechanism such as **performance-based metrics should be accompanied with appropriate rewards and penalties** to motivate a utility to act efficiently to achieve its approved performance-based metrics.

(Emphasis added).

The Public Staff's recommended PBMs, incentives, and penalties comport with the intent of N.C.G.S. §133.1B.a and Commission Rule R1-17A as well as with the expectations of the Commission to provide appropriate rewards and penalties that will motivate CWSNC to act efficiently and continue to strive for better performance and achieve its approved PBMs for the benefit of North Carolina ratepayers.

**WHEREFORE**, the Public Staff respectfully requests:

1. That the Commission take the Public Staff's recommendations into consideration in making a final decision regarding appropriate PBMs, incentives, and penalties to which CWSNC should be subject as part of an approved Water and Sewer Investment Plan under N.C.G.S. §62-133.1B;
2. That the Public Staff have an opportunity to file comments on the Company's filed recommendations; and
3. For such other and further relief as the Commission may deem just and proper.

Respectfully submitted, this the 17th day of March 2023.

PUBLIC STAFF  
Lucy D. Edmondson  
Chief Counsel

Electronically submitted  
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**CERTIFICATE OF SERVICE**

I certify that a copy of the Public Staff's Recommendations Regarding Performance-Based Metrics has been served on all parties of record or their attorneys, or both, by electronic delivery upon agreement of the receiving party.

This the 17th day of March 2023.

Electronically submitted  
/s/ Gina C. Holt





Public Staff Revised Recommended Performance-Based Metrics (PBMs)

\*Grey shading indicates the parties are not in agreement

Description	Measure	Penalty	Incentive
Timely Completion of CIP Projects	<p>Percentage of CIP Program projects in the approved WSIP incomplete during the planned rate year on a Company basis.</p> <p><u>Approved WSIP means a list of projects with estimated in service dates and costs upon completion allowed for prospective cost recovery</u></p> <p><u>Incomplete means not placed in service.</u></p>	<p>10 BP reduction to the high end of the Commission-authorized band if measure exceeds:</p> <p>15% in RY1 25% in RY2 35% in RY3</p>	None
Completion of CIP Projects on Budget	<p>Percentage of CIP Program projects that cost in excess of 110% of the estimate in the approved WSIP on a Company basis</p> <p><u>Approved WSIP means a list of projects with estimated in service dates and costs upon completion allowed for prospective cost recovery</u></p>	<p>10 BP reduction to the high end of the Commission-authorized band if measure exceeds:</p> <p>15% in Rate Year 1 25% in Rate Year 2 35% in Rate Year 3</p>	None
Expense Efficiency	<p>Operation &amp; Maintenance expense per Equivalent Residential Connection (ERC) on a <u>rate division and</u> Company basis, excluding <del>certain accounts outside of management control</del> (Purchased Water / Sewer Treatment, and Purchased Power, etc.)</p>	None	<p>If, on a Company basis, the actual O&amp;M expense level is reduced by at least \$1/ERC in comparison to the authorized level, then a two BP increase to the high end of the band would be awarded. For each additional \$0.40/ERC in savings, an additional one BP increase would be awarded, up to a cumulative maximum of 10 BPs.</p>

Description	Measure	Penalty	Incentive
Utilization of the SRF Program	Whether the Company applied for SRF funds for certain eligible projects <u>listed in the Commission's Order and approved in the WSIP in or before the Rate Year the project is planned to be placed in service.</u>	10 BP ROE reduction to high-end of the Commission-approved band for failure to submit applications as required by the measure.	One-half BP increase to the high-end of the Commission-approved band for every \$500K in funding the Company is awarded.
Safe Drinking Water Compliance	% days in compliance – (sum of all days – sum of all days out of compliance) / sum of all days  Sum of all days = No. of systems x 365 days	10 BP ROE reduction to the high-end of the band if < 98.84% (three-year average for 2020-2022) compliance on Company basis.  Resets annually	None
Clean <del>Wastewater</del> <u>Water Act</u> Compliance	% days in compliance – (sum of all days – sum of all days out of compliance) / sum of all days  <u>Sum of all days = No. of systems x 365 days</u>	10 BP ROE reduction to the high-end of the band if < 96.22% (three-year average for 2020-2022) compliance on Company basis  Resets annually	None
Water Service Disruptions	Unplanned water service disruptions – recorded <del>Lucity</del> water main breaks / 1,000 accounts	Tracking metric	Tracking metric
Sewer Overflows	Number of sanitary sewer overflows (SSOs) – wastewater SSOs / (100 miles of gravity line)	Tracking metric	Tracking metric
Water Loss	Water <del>produced</del> / purchased – water sold / water <del>produced</del> / purchased	Tracking metric	Tracking metric
<u>Routine Flushing</u>	<u>Percent of systems flushed within the WSIP Rate Year.</u>	Tracking metric	Tracking metric

Description	Measure	Penalty	Incentive
	<u>Percent of systems means number of systems flushed / total number of systems during the WSIP rate year.</u>		
Water Service Quality Customer Complaints	<del>Non-bill related customer</del> <u>Technical service</u> complaints in specific categories (no water, air in water, discolored water, high/low pressure, mineral amount, taste/odor, and water quality) / (active accounts / 1,000)  Underlying data should incorporate subdivision and system name	Tracking metric	Tracking metric
Timely Answering of Customer Calls	Telephone service factor – calls answered within 60 seconds / total calls answered (tracked by quarter)	1 BP ROE reduction to the high-end of the band for each quarter the percentage of calls answered within 60 seconds is 80% or less.	1 BP ROE increase to the high-end of the band for each quarter the percentage of calls answered within 60 seconds is 90% or greater.
<u>Customer Call Abandonment Rate</u>	<u>Percentage of calls abandoned by customers during the WSIP rate year.</u>	Tracking metric	Tracking metric
Employee Safety	OSHA incident rate – (number of injuries and illnesses*200,000/4) / employee hours worked	Tracking metric	Tracking metric
<u>Injury Severity</u>	<u>OSHA DART Rate – (number of OSHA Recordable Injuries and Illnesses that resulted in Days Away, Restricted Duty, or a Transfer of Duties)</u>	Tracking metric	Tracking metric
<u>Field Employee Safety Training</u>	<u>Field Employee safety training – hours of employee safety training / Field Employee</u>  <u>Field Employee means employee with job title listed below, or equivalent:</u>	Tracking metric	Tracking metric

Description	Measure	Penalty	Incentive
	<u>Field Tech I</u> <u>Field Tech II</u> <u>Field Tech III</u> <u>Water-Wastewater Operator I</u> <u>Water-Wastewater Operator II</u> <u>Water-Wastewater Operator III</u> <u>Lead Water-Wastewater Operator</u> <u>Area Manager</u> <u>Director, State Operations</u>  <u>Training means structured and organized training (not peer to peer training)</u>		
Employee Turnover	Number of <u>North Carolina</u> employees that leave / total number of <u>North Carolina</u> employees for same time period <u>(excluding transfers and/or promotions within Corix or an affiliate).</u>	Tracking metric	Tracking metric