

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. W-218, SUB 526A

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of		
Application by Aqua North Carolina, Inc., 202)	
MacKenan Court, Cary, North Carolina 27511, for)	PUBLIC STAFF
Authority to Implement Water and Sewer System)	REPORT
Improvement Surcharge Rate Adjustments)	
Pursuant to N.C. Gen. Stat. § 62-133.12)	

NOW COMES THE PUBLIC STAFF – North Carolina Utilities Commission by and through its Executive Director, Christopher J. Ayers, and respectfully submits its report on the Water System Improvement Charge (WSIC) and Sewer System Improvement Charge (SSIC) collected by Aqua North Carolina, Inc. (Aqua NC or Company), for the twelve months ended December 31, 2022 (WSIC and SSIC Period) pursuant to Commission Rules R7-39(l)(2) and R10-26(l)(2).

Aqua NC Annual Report

On March 1, 2023, Aqua NC filed its eighth WSIC/SSIC Annual Report and Experience Modification Factor Calculations (Annual Report) reconciling its actual eligible water and sewer system improvement costs, and actual WSIC and SSIC revenues, and providing its computation of the Experience Modification Factor (EMF) for each of its rate divisions.

Pursuant to Commission Rules R7-39(j) and R10-26(j), the EMF is to reflect the difference between the WSIC and SSIC revenue requirements and the revenues that were actually realized during the WSIC and SSIC Period. The EMF will remain in effect for a 12-month period and, under N.C. Gen. Stat. § 62-

133.12(e), any over-collections under the system improvement charge will include interest pursuant to N.C.G.S. § 62-130(e).

In its original Annual Report, Aqua NC calculated the following under-collections for the 12 months ended December 31, 2022:

	WSIC / SSIC Revenue Requirement for 2022	WSIC / SSIC Revenues Billed for 2022	Under/(Over)- Collection Including Interest for 2022
Uniform water	\$ 1,433,542	\$ 1,424,179	\$9,363
Uniform sewer	\$ 642,636	\$ 672,118	(\$33,904)
Fairways water	\$ 78,743	\$ 78,225	\$ 518
Fairways sewer	\$ 17,851	\$ 17,359	\$ 491
Brookwood water	\$ 68,932	\$ 69,280	(\$400)

Based on these under/(over)-collections, Aqua NC calculated the following EMFs to be effective for the 12 months beginning July 1, 2023:

	Under/(Over)- Collection For 2022	Projected 12 Months Revenues	EMF Effective for 12 Months Beg. 7/1/23
Uniform water	\$9,363	\$40,128,431	0.02%
Uniform sewer	(\$33,904)	\$17,448,549	-0.19%
Fairways water	\$ 518	\$1,263,679	0.04%
Fairways sewer	\$ 491	\$2,300,268	0.02%
Brookwood water	(\$400)	\$6,365,569	-0.01%

Public Staff Review and Recommended Adjustments

Based on its review of the Annual Report, the Public Staff recommends one adjustment to the over-collections reported by Uniform Sewer and Brookwood Water. The overcollection of WSIC revenues was calculated to include interest at 10% per annum for 18 months with simplified interest methodology for the Uniform

Sewer and Brookwood Water rate divisions. The Public Staff recommends monthly compounded interest calculation methodology on the overcollection of WSIC revenues, and the Company agrees with the recommendation.

Public Staff Concerns

The Public Staff reviewed the Annual Report and identified the following concerns as potential issues. However, due to timing of filing, pending rate case implications, and incomplete record, the Public Staff will keep working with the Company going forward to resolve these issues:

1. The EMF effective July 1, 2022 was calculated based on WSIC/SSIC under collections for calendar year 2021 and is to be charged for the period of July 1, 2022 through June 30, 2023. Normally, the EMF was calculated by using over or under collections divided by Company projected ongoing non WSIC SSIC revenue. The EMF will then show as percentages which will be applied to customers' monthly bills.

Effective February 19, 2023, temporary rates under bond increased rates approximately 10%. When Aqua applies EMF percentages to the actual revenues going forward, especially for the time period after February 19, 2023, the actual EMF collections may be higher than what Aqua intended to collect, because the actual revenues billed may be higher than the projected 2022 revenues that were used to calculate EMF percentages effective July 1, 2022. There is a high likelihood of over collection of the EMF for the period of February 2023 through June 2023. This is further complicated by the pending rate case and potential

partial increase to rates becoming effective prior to June 30, 2023. The Public Staff will work with the Company towards true-up calculations that will rectify this issue.

2. The EMF proposed by Aqua NC to be effective July 1, 2023 was calculated based on WSIC/SSIC under / over collections for calendar year 2022 and is proposed to be charged for the period of July 1, 2023 through June 30, 2024. Currently, the Company is using the most up to date 2023 non WSIC SSIC revenue. As described above, the pending rate case and potential partial increase to rates would significantly impact the revenue projection and as a result the calculation of a reasonably estimated EMF.

3. The WSIC/SSIC charges in 2023 would also be subject to true-up and an EMF that would have been normally effective July 1, 2024. However, N.C.G.S. § 62-133.1B(d) provides that the WSIC/SSIC shall be discontinued during the term of any Water and Sewer Investment Plan (WSIP). Aqua NC has proposed a WSIP in its pending rate case.

4. With the current EMF calculation methodology, the Public Staff has concerns that the actual EMF collected may not match or come close to what the Company intended to collect. The EMF percentage is calculated based on projected revenue while the actual revenue may be significantly higher than the projected revenue, because of the temporary rate increase and pending rate case. The Public Staff is considering whether a change to the methodology to calculate the EMF surcharge on customer bills is appropriate. Instead of applying the EMF percentage to customer bills, the methodology could be modified to calculate the surcharge per customer per month based on customer counts instead of projected

revenues, which are impacted by customer counts, usage, and rates. With this methodology, the EMF collections will not be affected by the change of rates during certain time periods, thus the actual EMF collection will likely be closer to what the Company is allowed to collect or refund.

We will continue to work with the Company as the circumstances develop and file our recommended resolution in a report to be filed at a later date.

Respectfully submitted this the 31st day of March, 2023.

PUBLIC STAFF
Christopher J. Ayers
Executive Director

Lucy. E. Edmondson
Chief Counsel

Electronically submitted
/s/ Elizabeth D. Culpepper
Staff Attorney

4326 Mail Service Center
Raleigh, North Carolina 27699-4300
Telephone: (919) 733-6110
elizabeth.culpepper@psncuc.nc.gov

CERTIFICATE OF SERVICE

I certify that a copy of this Report has been served on all parties of record or their attorneys, or both, by United States mail, first class or better; by hand delivery; or by means of facsimile or electronic delivery upon agreement of the receiving party.

This the 31st day of March, 2023.

Electronically submitted
/s/ Elizabeth D. Culpepper