

**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.,) ORDER SCHEDULING ORAL
202 MacKenan Court, Cary, North Carolina) ARGUMENT AND REQUIRING
27511, for Approval of Annual Adjustment to) VERIFIED RESPONSES BY THE
Conservation Pilot Program Revenue) PARTIES
Reconciliation Charge/Credit)

BY THE COMMISSION: On February 14, 2022, Aqua North Carolina, Inc. (Aqua NC or the Company), filed a Conservation Pilot Program annual reconciliation request (Reconciliation Request) pursuant to the Commission’s Order Approving Partial Settlement Agreement and Stipulation, Deciding Contested Issues, Granting Partial Rate Increase, and Requiring Customer Notice (Sub 526 Rate Case Order) issued on October 26, 2020, in Docket No. W-218, Sub 526 (Sub 526 rate case).

The Sub 526 Rate Case Order includes the following Findings of Fact regarding the Conservation Pilot Program and the revenue reconciliation process:

33. For the pilot program, Aqua NC proposed four usage tiers with inclining block rates and separate irrigation rates to be charged to residential water customers in the Arbor Run, Merion, Pebble Bay, and Bayleaf Master System service areas (a portion of the Aqua NC Water Rate Division) and The Cape service area (Fairways Water Rate Division). The Company stated that its pilot program proposal is contingent upon Commission approval of its proposed revenue reconciliation process specific to the pilot areas. According to Aqua NC, the purpose of the proposed revenue reconciliation process is to assure that the Company will receive its full authorized revenue requirement, no more and no less.

. . . .

43. It is reasonable and appropriate that a Conservation Pilot Program be designed to maintain revenue sufficiency and stability for Aqua NC. A revenue reconciliation mechanism is appropriate to support the Company’s reasonable opportunity to recover its full Commission-approved revenue requirements despite implementation of a Conservation Pilot Program.

. . . .

44. For purposes of implementing the Conservation Pilot Program in a portion of the Aqua NC Water Rate Division, a revenue reconciliation process applicable only to the pilot group is in the public interest. It is reasonable and appropriate that a revenue reconciliation process as set forth by the Company be integral to the pilot program; however, such revenue reconciliation process allowed in this docket for this specific purpose is not intended to establish the process by which any future revenue reconciliation for Aqua NC or other regulated utilities related to actual consumption variances from Commission-approved levels in general rate case proceedings as allowed by N.C. [Gen. Stat.] § 62-133.12A will be calculated.

On April 1, 2022, the Public Staff filed its Notice of Public Staff's Plan to Present Comments and Recommendations at the Commission's April 18, 2022 Regular Staff Conference (Notice).

On April 8, 2022, Aqua NC filed its response to the Public Staff's Notice, consisting of a second affidavit of Dean M. Gearhart, Manager, Rates and Planning for Aqua NC. Aqua NC asserted that the Conservation Pilot Program annual revenue reconciliation calculations proposed in the Public Staff's Notice are inconsistent with the Commission's finding and decision in the Sub 526 rate case. Aqua NC agreed with the Public Staff's recommendation that the refund be made as a one-time bill credit to all affected pilot customers, as opposed to over a period of nine to twelve months as originally envisioned by the Company. Aqua NC asserted that this concession "mitigates and offsets any need for the Commission to require the accrual of interest" as recommended by the Public Staff. Aqua NC requested that, if the Commission imposes an interest charge, it use a rate of 6.81%, the Company's current overall rate of return, as opposed to determining the rate pursuant to N.C.G.S. § 62-130(e) as recommended by the Public Staff which results in a 10% interest rate per annum. Finally, Aqua NC requested that the Commission rule that interest at the same rate of any interest it imposes on the refund currently at issue be applied to any customer surcharges resulting from any future revenue under-recoveries.

The Public Staff planned to present this matter to the Commission at its April 18, 2022 Staff Conference; however, at the request of the Commission, this matter was removed from the Staff Conference agenda to allow Aqua NC and the Public Staff to provide verified written responses to Commission's questions prior to the parties' presentation of this matter to the Commission.

Based on the foregoing and the entire record herein, the Commission finds good cause to schedule oral argument in this matter to address the disputed issues raised by the parties for Conservation Pilot Program revenue reconciliation.

Further, the Commission finds good cause to direct Aqua NC and the Public Staff to file verified written responses to the following questions:

1. On page 6 of Aqua NC's April 8, 2022 filing, the second to the last paragraph states, "[t]he Company calculates the total refund amount to be \$102,766.50 (\$3,786,155 block revenue from the rate design times 2.7%)." That math is incorrect. Is the correct calculation $\$3,786,155 \times 2.7\% = \$102,226.19$ which would then be divided by the year-end 2021 bill count of 7,059 to equal a one-time refund of \$14.48 per customer before interest, if any? Would this calculation to determine the amount to be refunded to customers be completely consistent with the calculation per Thill Revised Exhibit 4, Scenario 2? Explain.

2. Based on the Excel files Aqua NC provided supporting the Pilot Program revenue reconciliation, the refund calculation of \$102,766.50 is calculated as \$1.23 times 83,550 actual 2021 bills. However, as previously noted, this calculation does not appear to be completely consistent with Thill Revised Exhibit 4, Scenario 2. It appears that witness Thill calculated the amount of the refund by applying the calculated percentage (2.7%) to the authorized volumetric amount of revenue for the Pilot Program per the rate case (\$3,786,155). Explain how the \$102,766.50 refund amount is based on the calculation method witness Thill proposed in the Sub 526 rate case for the Pilot Program revenue reconciliation.

3. Is it true that Aqua NC witness Thill does not include customer growth in any of the three revenue reconciliation scenarios presented in Thill Direct Exhibit 4 or Thill Revised Direct Exhibit 4? Would use of the 83,550 actual 2021 bills in the calculation of the amount to be refunded to customers incorporate customer growth into the calculation since the 83,550 actual 2021 bills includes new bills?

4. During the Sub 526 evidentiary hearing, did witness Thill propose or state that Aqua NC would be agreeable to a revenue requirement cap with respect to this Pilot Program and the annual Pilot Program revenue reconciliation?

5. Finding of Fact No. 44 of the Sub 526 rate case order states that "It is reasonable and appropriate that a revenue reconciliation process as set forth by the Company be integral to the pilot program; however, such revenue reconciliation process allowed in this docket for this specific purpose is not intended to establish the process by which any future revenue reconciliation for Aqua NC or other regulated utilities related to actual consumption variances from Commission-approved levels in general rate case proceedings as allowed by N.C.G.S. § 62-133.12A will be calculated." What is the Public Staff's viewpoint on this statement? Does the Public Staff consider this statement from the Commission's Sub 526 rate case order to be an approval of the methodology proposed by Aqua NC in the rate case for the revenue reconciliation for this specific Pilot Program? Explain.

6. Do the parties consider the Company's revenue reconciliation process for this first annual reconciliation of the Pilot Program to be centered on calculations based on average per customer use? Is this calculation the same or similar to the revenue reconciliation calculation the Company proposed in its Sub 526 rate case when the Pilot Program was approved by the Commission?

7. In its calculation of this Pilot Program revenue reconciliation, is the Public Staff advocating for a revenue cap based upon the revenue requirement set by the Commission in the Sub 526 rate case? If yes, would such reconciliation be in compliance with the Commission's Sub 526 Order? Explain.

8. Does the Public Staff maintain its disagreement presented in the Sub 526 rate case with the use of a revenue reconciliation calculation based on average use per customer as proposed by the Company in the Sub 526 rate case? Explain.

9. Does the Public Staff include revenue/usage related to customer growth since the end of Sub 526 rate case in its recommended revenue reconciliation calculation? Explain.

IT IS, THEREFORE, ORDERED as follows:

1. That this matter shall be, and is hereby, scheduled for oral argument on Monday, May 16, 2022, at 2:00 p.m., in the Commission Hearing Room, 2115 Dobbs Building, 430 North Salisbury Street, Raleigh, North Carolina; and

2. That Aqua NC and the Public Staff shall file verified written responses to the Commission's questions no later than Wednesday, May 11, 2022.

ISSUED BY ORDER OF THE COMMISSION.

This the 4th day of May, 2022.

NORTH CAROLINA UTILITIES COMMISSION

A handwritten signature in cursive script, appearing to read "Joann R. Snyder".

Joann R. Snyder, Deputy Clerk