

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. W-100, SUB 67

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of		
Investigation Regarding Consolidation of)	ORDER SCHEDULING
Water and Wastewater Utilities and the)	TECHNICAL CONFERENCE
Utilization of Uniform Rates)	

BY THE CHAIR: The Commission has generally considered consolidation of separate water and wastewater systems into one single cost of service utilizing uniform rates to be in the public interest. Uniform rates reflect the use of a unified rate division for multiple water systems or wastewater systems that are owned or operated by a single utility. Under the Commission's uniform rate paradigm, customers pay a utility the same rate for similar service, regardless of the physical location of their system. The Commission has previously concluded that the uniform rate paradigm serves the public interest in a number of ways. First, the Commission has recognized that consolidating the costs associated with many systems into a single rate division spreads those costs over a larger customer base, which provides downward pressure on rates. The uniform rate paradigm spreads risks across customers to their benefit, as, while customers share in the risk of the need for significant investment in one system or the occurrence of significant unexpected costs by one system, that risk is borne by a much larger body of customers. Second, the ability to spread costs over a larger customer base has encouraged and enabled larger, well-capitalized utilities like Aqua North Carolina, Inc. (Aqua) and Carolina Water Service, Inc. of North Carolina (CWSNC) to acquire financially or operationally troubled water and wastewater systems in North Carolina that are in need of significant investment and to make that necessary investment in the acquired systems. Third, the Commission has recognized the administrative and regulatory efficiencies that arise from the uniform rate paradigm. As a consequence, both Aqua and Carolina CWSNC have uniform rate divisions for both water and sewer service.

There have been instances, however, in which the Commission has determined that inclusion of certain systems in stand-alone rate divisions rather than in the utility's uniform division is in the public interest, as a result of facts and circumstances that are unique to the separate system, and an interest in avoiding rate shock to customers or other such unjust or unreasonable outcomes. To this end, the Commission has approved five separate rate divisions for Aqua's water and wastewater systems¹ and four for CWSNC.²

¹ Uniform Water, Uniform Sewer, Fairways and Beau Rivage Water, Fairways and Beau Rivage Sewer, and Brookwood Water.

² Uniform Water, Uniform Sewer, Bradfield Farms/Fairfield Harbour/Treasure Cove Water, and Bradfield Farms/Fairfield Harbour Sewer.

Water and wastewater systems in North Carolina face an increasing number of challenges to their provision of safe, adequate, reliable and affordable service. Replacing aging or failing infrastructure, complying with environmental regulations, addressing secondary water quality issues, planning for and implementing treatment for PFOS/PFOA³ and other chemicals of emerging concern, protecting against physical and cyber threats to infrastructure, and generally responding to customer expectations regarding service quality are but several of these challenges. Each of these challenges implicates investment, and addressing these challenges, while managing costs that customers must bear, is and will continue to be the greatest challenge for water and wastewater utilities. Given these challenges, the Commission has determined that it is appropriate, at this time, to consider whether the uniform rate paradigm continues to serve the public interest. Further, to the extent that the uniform rate paradigm does continue to serve the public interest, the Commission determines that it is also appropriate, at this time, to consider how and when to achieve uniformity as water and wastewater utilities seek to acquire new systems. Therefore, the Commission will conduct a technical conference for this purpose and directs the Public Staff, Aqua, and CWSNC to participate in the technical conference.

In presentations to the Commission, Public Staff, Aqua, and CWSNC are directed to address:

1. Whether the uniform rate paradigm continues to serve the public interest in North Carolina; and
2. Whether the path to uniformity should or must change in light of the challenges faced by the water and wastewater utilities in North Carolina, including consideration of:
 - a. Whether the availability of the Water and Sewer Investment Plan (WSIP) ratemaking mechanism, N.C.G.S., § 62-133.1B, affects the analysis of whether uniform rates or stand-alone rates are appropriate at the time of approval of a request to transfer a utility franchise;
 - b. How rate shock and rate gradualism should be balanced during any migration to uniform rates in a rate case proceeding or WSIP for systems acquired since the last rate case proceeding or WSIP;
 - c. Whether, and under what circumstances, the commitment of resources, both utility and Public Staff/Commission, to reviewing and maintaining a stand-alone rate paradigm for regulatory treatment is justified;

³ Perfluorooctanesulfonic acid (PFOS) and perfluorooctanoic acid (PFOA) are chemical compounds, which are part of the larger per- and polyfluoroalkyl substances (PFAS) family of compounds.

- d. Whether, and under what circumstances, the justification for uniform rates in a transfer proceeding should deviate from a traditional historical cost-of-service analysis;
- e. Whether and how those situations where a system to be acquired has rates that do not fully reflect the cost to provide utility service impact the consideration of whether a uniform rate paradigm is appropriate;
- f. Whether, and under what circumstances, stepped-in rate increases to the acquiring utility's uniform rates should be considered when uniform rates are not supported by the historical cost-of-service analysis at the time of transfer, including:
 - i. Whether the Commission is authorized to consider planned capital improvements over the stepped-in rate period under N.C.G.S. § 62-133; and
 - ii. If so, whether the acquiring utility should be required to provide supporting documentation to the Public Staff and Commission of in-service dates prior to stepping up the rates to the next level; and
- g. Whether and how the existing stand-alone rate divisions currently in place for Aqua, CWSNC, and any other intervenor would eventually be consolidated into one unified rate structure.

In addition, within the 20-minute timeframe allotted for each presenter, the presenting parties may address any other matter relevant to the uniform rate policy that the Commission should consider.

At the technical conference, the Public Staff and intervening parties will be allowed the opportunity to ask questions of other parties and, in addition, are directed to respond to Commission questions.

IT IS, THEREFORE, SO ORDERED as follows:

1. That a technical conference for the purpose of receiving presentations by Public Staff, Aqua, and CWSNC is scheduled for Wednesday, October 11, 2023, starting

at 9:30 a.m., in Commission Hearing Room 2115, Dobbs Building, 430 North Salisbury Street, Raleigh, North Carolina;

2. That Aqua and CWSNC are made parties to this proceeding;

3. That the Public Staff, Aqua, and CWSNC, shall appear and participate at the technical conference on October 11, 2023, presenting on the issues as directed in this Order;

4. That other interested parties shall file petitions to intervene in the proceeding on or before Monday, September 25, 2023; and

5. That the Public Staff, Aqua, CWSNC, and any other intervenors shall file with the Commission a list of the individuals who will appear at the technical conference, as well as presentation materials to be used, on or before Friday, October 6, 2023.

ISSUED BY ORDER OF THE COMMISSION.

This the 18th day of September, 2023.

NORTH CAROLINA UTILITIES COMMISSION

A handwritten signature in black ink, reading "Tamika D. Conyers". The signature is written in a cursive, flowing style.

Tamika D. Conyers, Deputy Clerk