

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. W-218, SUB 526

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of
Application by Aqua North Carolina, Inc.,) INITIAL PROGRESS REPORT
202 MacKenan Court, Cary, North Carolina) REGARDING DEVELOPMENT
27511, for Authority to Adjust and Increase) OF A MUTUALLY AGREEABLE
Rates for Water and Sewer Utility Service) NON-REVENUE PURCHASED
in All Its Service Areas in North Carolina) WATER STANDARD

NOW COME the Public Staff – North Carolina Utilities Commission (Public Staff) and Aqua North Carolina, Inc. (Aqua NC or the Company), hereinafter collectively referred to as the Parties, by and through the undersigned counsel, and file this Initial Progress Report Regarding Development of a Mutually Agreeable Non-Revenue Purchased Water Standard (Initial Progress Report), as discussed below.

I. Background

1. In its Order Approving Partial Settlement Agreement and Stipulation, Deciding Contested Issues, Granting Partial Rate Increase, and Requiring Customer Notice issued on October 26, 2020, in Docket No. W-218, Sub 526 (Rate Case Order), the Commission ordered as follows:

16. That Aqua NC and the Public Staff shall develop a mutually-agreeable purchased water loss standard based upon the methodology for purchased water systems set forth in Aqua NC's Pearce and Kunkel rebuttal testimony for implementation in the Company's next general rate case and report on the progress of those discussions to the Commission within nine months of this Order.

Rate Case Order at 170.

2. In the Memorandum of Understanding (MOU) by and between the Public Staff and Aqua NC filed on May 26, 2021, in Docket No. W-218, Sub 526, the Parties stated as follows:

10. Aqua NC anticipates internal M36 Water Audits for calendar year 2020 will be completed for systems that exceeded 15% water loss by May 31, 2021. Aqua NC will provide the results of the internal M36 Water Audits and the Company's analysis of those results to the Public Staff no later than July 15, 2021. The Parties will file a progress report on the development of a mutually-agreeable water loss standard based on the M36 Water Audits no later than August 31, 2021, and every six months thereafter until the expiration of the two-rate case interim period.

MOU at 5.

3. In its Order Accepting Memorandum of Understanding Concerning Non-Revenue Purchased Water issued on July 27, 2021, in Docket No. W-218, Sub 526 (Order Accepting MOU), the Commission stated as follows:

Finally, the Commission understands the Parties' mutual agreement that data supporting development of a standard based on the Company's rebuttal testimony is not currently available and that an interim standard is needed for the period of time during which such data will be obtained and analyzed. However, the Commission is concerned about the Parties' defining the time period to acquire the necessary data as two rate cases rather than as the actual time that it will take to acquire and analyze the data. A period of two rate cases is vague and uncertain because the timing of rate cases is generally within the Company's control or discretion, i.e., there is no date certain when rate cases must be filed. Thus, the Commission directs the Parties to provide in their first report regarding non-revenue purchased water, to be filed no later than August 31, 2021, information explaining their rationale and basis for selecting a two-rate case period for application of the 20% interim non-revenue purchased water standard as opposed to a more definite time and to explain further why the interim standard would necessarily need to be applied to more than one future rate case. If there is good and sufficient reason for the two-rate case interim standard, the report should also discuss assurances that the actual time

before applying a non-revenue purchased water standard based on actual data in the third future rate case will not be unreasonably vague and indefinite. The Parties are also directed to include in their August 31, 2021 report a specific date or actual timeframe by which they anticipate reaching a final mutually agreeable non-revenue purchased water standard based on the methodology set forth in Aqua NC witnesses Pearce's and Kunkel's rebuttal testimony in the last general rate case.

Order Accepting MOU at 4-5.

II. Progress Report

On July 20, 2021, Aqua NC provided the Public Staff with completed M36 Water Audit worksheets in Excel format for 17 purchased water systems that had greater than 15% non-revenue water during the calendar year of 2020. In addition, Aqua NC provided the Public Staff with a summary spreadsheet listing the water system names, indicating whether non-revenue water exceeded 20%, and providing the unit real losses in gallons per connection per day (gal/conn/day) and gallons per mile per day (gal/mile/day). Further, from the M36 Water Audit worksheet dashboard, Aqua NC provided the approximate percentiles its purchased water systems would fall in for unit real losses as compared to the Level 1 validated data in the AWWA WLCC Reference Water Audit Dataset (2020).¹

On July 26, 2021, Charles Junis and Lindsay Darden, Utilities Engineers for the Public Staff Water, Sewer, and Telephone Division, and Joseph Pearce, Director of Operations for Aqua NC, met virtually to discuss water loss and the available data, including Aqua NC's water audit results and summary spreadsheet.

¹ Kunkel, G. et al. *AWWA WLCC Reference Water Audit Dataset. 2020*. AWWA. Denver, CO.

On August 9, 2021, Aqua NC provided the Public Staff with a revised summary spreadsheet containing additional information requested by the Public Staff, including the water suppliers, number of connections, percent non-revenue water, real losses in dollars per year and dollars per connection per year with associated percentiles, systems identified for possible non-revenue water fieldwork, and an initial proposal for a non-revenue purchased water standard based on select M36 Water Audit performance metrics.

On August 18, 2021, Mr. Junis, Ms. Darden, and Mr. Pearce met to discuss the revised summary spreadsheet, the Commission's Order Accepting MOU, and the initial progress report. The Parties agreed to a plan of action moving forward, including collecting additional data and formulating responses to the Commission's directives.

With regard to the directives in the Commission's Order Accepting MOU, the Parties provide the following:

The Public Staff and Aqua NC believe the terms of the MOU will reduce rate case expense and increase administrative efficiency during the two-rate case interim period, as it will reduce the amount of time required to investigate Aqua NC's purchased water expenses and calculate the associated adjustments, will likely eliminate the need for rebuttal testimony on the issue, and will reduce time and resources that would be expended if the issue was litigated. Non-revenue purchased water expense was the subject of Public Staff testimony and Aqua NC rebuttal testimony in the past two general rate cases in Docket No. W-218, Subs 497 and 526, which were filed on March 7, 2018, and December 31, 2019,

respectively. The issue was litigated in the Sub 497 proceeding and was the subject of a partial settlement agreement in the Sub 526 proceeding.

The two-rate case period does not preclude the Parties from presenting the Commission with a mutually agreeable non-revenue purchased water standard prior to the expiration of the MOU term of two rate cases. However, the two-rate case period provides an appropriate and reasonable amount of time to further investigate the determination and applicability of key performance indicators that are the result of the M36 Water Audit and standards against which to measure them. For example, the Public Staff and Aqua NC intend to obtain and review the AWWA WLCC Reference Water Audit Dataset, which is currently the measure for the key performance indicator percentiles. It would be helpful to know the characteristics of the utilities and their water systems included in that dataset when comparing it to Aqua NC and other Commission-regulated water utilities. Aqua NC anticipates internal M36 Water Audits for calendar year 2021 will be completed for systems that exceed 15% non-revenue water by March 31, 2022. Aqua NC will provide the results of the internal M36 Water Audits and the Company's analysis of those results to the Public Staff no later than May 31, 2022. Multiple years of data will be necessary in determining the repeatability and reliability of the water audits and the effectiveness of actions taken can be measured to some degree.

No later than August 31, 2025, the Parties will determine and present to the Commission a mutually agreeable non-revenue purchased water standard or inform the Commission that agreement could not be reached and the Parties

intend to address the issue in the appropriate proceeding following the two-rate case period.

WHEREFORE, the Public Staff and Aqua NC request that the Commission review this Initial Progress Report and accept the content herein as responsive to the Commission's directives in its Order Accepting MOU.

Respectfully submitted, this the 30th day of August 2021.

ATTORNEY FOR THE PUBLIC STAFF

/s/Megan Jost
Staff Attorney
Public Staff Legal Division
4326 Mail Service Center
Raleigh, NC 27699-4300
megan.jost@psncuc.nc.gov

ATTORNEYS FOR AQUA NORTH CAROLINA, INC.

/s/Jo Anne Sanford
Sanford Law Office, PLLC
Post Office Box 28085
Raleigh, North Carolina 27611-8085
T: 919.210.4900
sanford@sanfordlawoffice.com
State Bar No. 6831

/s/Robert H. Bennink, Jr.
Bennink Law Office
130 Murphy Drive
Cary, North Carolina 27513
T: 919.760.3185
BenninkLawOffice@aol.com
State Bar No. 6502

CERTIFICATE OF SERVICE

I certify that I have served a copy of the foregoing Initial Progress Report Regarding Development of a Mutually Agreeable Non-Revenue Purchased Water Standard on all parties of record in accordance with Commission Rule R1-39, by United States mail, postage prepaid, first class; by hand delivery; or by means of facsimile or electronic delivery upon agreement with the receiving party.

This the 30th day of August, 2021.

Electronically submitted
/s/Megan Jost
Staff Attorney

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