



March 5, 2024

Via Electronic Submittal

Ms. A. Shonta Dunston
Chief Clerk
North Carolina Utilities Commission
430 N. Salisbury Street, Room 5063
Raleigh, NC 27603

Re: Docket No. W-100 Sub 67
Order Establishing Quarterly Technical Conferences

Dear Ms. Dunston:

On December 21, 2023, the Commission issued an Order Establishing Quarterly Technical Conferences and Scheduling First Quarterly Conference. It required Aqua North Carolina (Aqua) to file individuals that would be appearing at the March 11, 2024, conference as well as any presentation materials to be used during the technical conference.

Ruffin Poole, Director of Development and Regulatory Affairs, and Kimberly Joyce, Vice President Regulatory, Government and External Affairs, will appear on behalf of Aqua. David Drooz, Counsel, Fox Rothschild, will represent Aqua. The attached presentation is the material that will be discussed by Aqua at the technical conference.

I hereby certify that a copy of this filing has been served upon the parties of record to Docket No. W-100, Sub 67.

Please do not hesitate to contact Aqua, if there are any questions.

Sincerely,

Robyn E. Lambeth
Senior Executive Assistant
Aqua North Carolina, Inc.
919-653-5771

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Mar 05 2024

W-100, Sub 67
NCUC Technical Conference
March 11, 2024



An  Essential Utilities Company

W-100, Sub 67: Introduction and Background

In the Matter of Investigation Regarding Consolidation of Water and Wastewater Utilities and the Utilization of Uniform Rates under Docket W-100, Sub 67:

- 10/17/23 – Order Rescheduling Technical Conference with requirement to address two questions, including nine sub-parts regarding the uniform rate paradigm for water and wastewater utilities.
- 12/6/23 – Technical conference concluded
- 12/21/23 - Commission Order establishing quarterly technical conferences and a requirement to address seven follow-up questions regarding the uniform rate paradigm for water and wastewater utilities.
- 2/6/24, 2/14/24, and 2/22/24 - Stakeholder engagement meetings with representatives from Aqua North Carolina Inc. (Aqua), Carolina Water Service, Inc of North Carolina (CWSNC), Public Staff of the North Carolina Utilities Commission (Public Staff) and Red Bird Operating Company, LLC (Red Bird).

The following presentation will discuss the additional questions raised by the Commission in its 12/21/2023 Order related to **ACQUIRED** systems/customers.

Question One

Q1. Whether water and wastewater systems should be grouped based on similar costs of service or other similar characteristics to address the unique differences of each system without performing individual system cost of service studies when establishing rates?

- Aqua recommends that water and sewer customers of a similar class (residential or commercial) in various utility systems/communities that may or may not be contiguous or physically interconnected and operated by a single utility, be grouped at the highest level of service type (water or sewer).
- This would result in one water rate entity and one sewer rate entity for a utility – similar to electric/gas customers operated by the same utility within a state. (See next slide for visual reference)
- Aqua's recommendation provides consistency, reliability, efficiency, and financial protection to customers from significant cost fluctuations.

Move to One Revenue Requirement for Customers Receiving Similar Service (1 Water & 1 Sewer)

Aqua NC Today

ANC Water

Fairways Water

Brookwood Water

ANC Waste

Fairway WW



Aqua NC Tomorrow

ANC Water

ANC WW

IMPORTANT: Various rate groups within ANC Water and ANC Wastewater rate entities may be necessary to provide for rate gradualism as Fairways and Brookwood move closer to ANC W and WW consolidated rates, and to account for newly acquired systems to be integrated.

Question Two

Q2. Whether a transferred system can be incorporated into an existing WSIP multi-year rate plan to avoid increasing the number of standalone rate entities between WSIP periods?

- Yes, the transferred customers/systems should be included in an existing WSIP.
- Rate consolidation of a transferred system will encourage utilities to pursue acquisitions if they have a multi year rate plan and consolidated rates; however, flexibility to adapt reporting to WSIP requirements is vital.
- The critical assumption on allowing the transferred system into the WSIP is flexibility in the capital budget process and related reporting requirements.

Question Three

Q3. How should the Commission address the affordability issue for low-income customers when migrating to uniform rates? What tools, if any, are available within the North Carolina General Statutes and Commission rules to address the affordability issue?

- There are a number of different options available to assist with affordability:
 1. A customer-funded customer assisted program (CAP) program should be implemented.
 - Aqua could use a portion of non-regulated revenue that is already shared with customers, such as antenna revenue;
 - Modified rate design (e.g., discounted tariff Base Facilities Charge (BFC)).
 2. Support from Federal/state utility programs for water and wastewater bills (e.g., extension of the Low Income Household Water Assistance Program (LIHWAP)).
- Aqua believes there is discretion within the General Statutes and Commission rules to set rates using a reasonable level of subsidization to improve affordability for low-income customers.

Question Four

Q4. Whether acquired systems that have a cost of service less than the utility's uniform rate cost of service should be included in uniform rates at the time of transfer. In what circumstances, if any, would the Public Staff recommend that these systems not be charged the uniform rates at the time of transfer and receive standalone rates?

- Customers with lower, and higher, estimated costs of service should be included in an existing consolidated or uniform rate structure using a singular revenue requirement.
- Newly acquired system rates should be included within the acquiring companies consolidated rate structure at the time transfer is approved.
- Aqua's recommendation assumes a similar cost of service over time for similar customers that provides consistency, reliability, efficiency, and financial protection to customers from significant cost fluctuations.

Question Five

Q5. Should the Commission consider it appropriate ongoing policy that the determination of whether uniform rates are appropriate at the time of transfer will be made on a case-by-case basis regardless of whether the cost of service for the standalone system supports such approval?

- The company supports an ongoing policy of general movement to uniform rates, with the intention of attaining consolidated/uniform rates gradually over time (via rate cases) using tiered rates, which retains NCUC flexibility.
- A need for certainty, at the time a transfer, is required. The default should be uniform rates with exceptions as the circumstances warrant on a case-by-case basis.

Question Six

Q6. What mechanisms would facilitate efficient transfer of small water and wastewater systems to the larger utilities? For example, for administrative efficiency, should an acquiring utility be permitted to combine several acquisitions into a single consolidated application for Commission approval? If so, what changes should be made to the existing transfer application to create a more efficient process for all parties and the Commission?

- Establish eligibility criteria for small, troubled, and/or disadvantaged systems and establish a modified review/approval process considering:
 - Elimination of a formal cost-of-service or revenue requirement analysis at the transfer proceeding.
 - Establish an “allowed” market-based rate base (regardless of original cost net of depreciation or NBV).
 - Expedited timelines of regulatory review and approval

Question Seven

Q7. Should the rate base of the acquired systems be established in the transfer proceeding, rather than having the rate base determination deferred to a future general rate case proceeding? If so, are there any exceptions in which the rate base determination should be deferred to a future rate case proceeding?

- Yes. Rate base of an acquired system should be established and known in the transfer proceeding to provide the utility regulatory certainty before closing on the acquisition.
- A primary intention of the FMV statute is to incentivize professional utility acquisition of municipal systems, where a municipality does not want to be in the utility business for various reasons, by providing a fair market valuation that could be used to determine the final purchase price, and, rate base for the acquiring utility.

Questions

W-100 Sub 67

