

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. W-100, SUB 61

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of		
Petition for Rulemaking to Implement)	REPLY COMMENTS
N.C. Gen. Stat. § 62-133.12A, North)	REGARDING RULEMAKING
Carolina Session Law 2019-88 (House)	PROCEEDING
Bill 529))	

NOW COMES THE PUBLIC STAFF – North Carolina Utilities Commission (Public Staff), by and through its Executive Director, Christopher J. Ayers, and pursuant to the Commission’s Order Establishing Rulemaking Proceeding and Granting Petitions to Intervene issued on November 14, 2019, respectfully submits its Reply Comments in support of Public Staff’s Petition requesting the Commission to adopt the Proposed Rules R7-40 and R10-27 attached hereto as Exhibits A and B, respectively. In support of these Reply Comments and the Public Staff’s Petition, the Public Staff states the following:

1. On October 31, 2019, the Public Staff filed a Petition for Order Establishing Rulemaking Proceeding to implement N.C. Gen. Stat. § 62-133.12A. The Public Staff provided its proposed rules for the water and wastewater mechanisms, which are the Water Usage Adjustment (WUA) and the Sewer Usage Adjustment (SUA).

2. On November 4, 2019, Aqua North Carolina, Inc. (Aqua), and Carolina Water Service, Inc. of North Carolina (CWSNC), filed petitions to intervene in this docket.

3. On November 14, 2019, the Commission issued its Order Establishing Rulemaking Proceeding and Granting Petitions to Intervene. The Commission's Order required that petitions to intervene be filed on or before November 22, 2019, that initial comments be filed on or before December 16, 2019, and that reply comments be filed on or before January 6, 2020.

4. On December 12, 2019, Aqua and CWSNC jointly filed a Motion for Extensions of Time to File Initial and Reply Comments. The Motion requested that the Commission extend the filing deadlines for initial and reply comments to January 31, 2020, and February 28, 2020, respectively.

5. On December 18, 2020, the Commission issued its Order Granting Motion for Extension of Time Nunc Pro Tunc, effective December 16, 2019.

6. On January 31, 2020, Aqua and CWSNC jointly filed Initial Comments Regarding Rulemaking Proceeding.

7. On February 13, 2020, the Commission issued an Errata Order. The Commission's Order corrected the date that reply comments were to be filed to on or before February 28, 2020.

Public Staff's Reply Comments

The Public Staff appreciates the Initial Comments filed by Aqua and CWSNC, (collectively, Companies). The Public Staff has reviewed and considered the Companies' Initial Comments and Revised Proposed Rules R7-40 and R10-27. While the Public Staff strongly opposes the Companies' substantial changes as reflected in their Revised Proposed Rules, modifications have been made to accommodate a number of the Companies' concerns. The Public Staff offers the

following comments in support of its Proposed Rules R7-40 and R10-27. Redline versions are attached as Exhibits C and D.

Natural Gas Customer Usage Tracking Mechanism

The Companies conflate the natural gas and water/wastewater industries. Starting on page 4 of their Initial Comments, the Companies “propose that the rules adopted by the Commission in this docket for the water and sewer industry should mirror, as much as reasonably practicable, the longstanding practices and procedures which underlie the natural gas mechanisms.” The mechanisms, Customer Usage Tracker (CUT) and Margin Decoupling Tracker (MDT), utilized by Public Service Company of North Carolina, Inc. (PSNC) d/b/a Dominion Energy North Carolina (Dominion) and Piedmont Natural Gas Company, Inc. (Piedmont), respectively, apply only to the margin.

The margin excludes the commodity cost of gas and fixed gas costs, which includes pipeline capacity and storage. The margin is commonly referred to as the R Factor or R Value and is approximately half of the gas usage rates charged by PSNC and Piedmont. The gas companies file monthly reports within 45 days of the end of each calendar month detailing activities in the customer usage deferred accounts including, but not limited to, rate case authorized and actual levels of usage and revenues, deferred account balances and adjustments, and accrued interest. Aqua and CWSNC have proposed quarterly reporting in contrast to the longstanding practices and procedures of the natural gas industry that the Companies request be mirrored.

The monthly expected usage is determined by three inputs, 1) Normal Degree Days (NDDs) or Heating Degree Days (HDDs), 2) Base Load (therms/month), and 3) Heat Sensitivity Factor (HSF, therms/HDD). The month-specific inputs determined by the weather normalization of heat sensitive customers classes (residential, small commercial, medium commercial, etc.) are approved by the Commission in a general rate case. While this has been a longstanding practice in the natural gas industry, the Public Staff is unaware of any Commission-regulated water or wastewater utility that has monthly usage determinants specifically approved for predictive ratemaking purposes. It is the Public Staff's experience that the total consumption and number of customers for the test year, subject to normalization and pro forma adjustments, are utilized to calculate present, proposed, recommended, and approved revenues and for rate design.

The natural gas companies' mechanisms apply to each weather sensitive customer class as stated above. However, the Companies dispute the Public Staff's inclusion of "customer classification and rate schedule" in its proposed mechanisms. Again, Aqua and CWSNC seek to deviate from the natural gas practices and procedures. This is also in conflict with Companies' requests to implement pilot rate programs, tiered rates, and/or irrigation rates for specific customer classifications in the respective pending general rate cases.¹ The usage

¹ Aqua filed a general rate case on December 31, 2019, in Docket No. W-218, Sub 526, in which the Company is requesting a Conservation Rate Pilot specific to Arbor Run (Guilford County), Pebble Bay (Catawba County), and Bayleaf and Merion (Wake County) in the Uniform Water Rate Division and applicable to the entire Fairways Water Rate Division. The proposed rates include tiered increasing block rates for irrigation meter customers and in the Fairways Water Rate Division a separate commercial usage rate.

profiles of different customer classifications and rate schedules (i.e., rate divisions) can vary significantly and especially in the proportion of mandatory and discretionary usage.

Ratemaking

The Companies have misstated the ratemaking equation for the purposes of Commission regulated water and wastewater companies. The Companies mistakenly state on page 7 of the Initial Comments that the total consumption is the product of the number of customers multiplied by the average per customer usage (Total Consumption = # of Customers x Average Per Customer Usage). Consumption in a rate case is based on the sum total of the actual consumption of customers during the test period. Consumption is commonly normalized to account for end-of-period customers and their annualized usage, averaged over multiple years of data to minimize outliers, and updated for customer growth. The average per customer usage can only be calculated having already known the total consumption and the number of customers (Average Per Customer Usage = Total Consumption / # of Customers).

The Companies describe hypothetical scenarios of a utility surrendering and acquiring customers. Newly acquired customers would be excluded from a WUA/SUA mechanism, just the same as the WSIC/SSIC mechanism, since those customers and their usage would not have been part of the determination of authorized consumption and revenue. Selling a system and surrendering

CWSNC filed a general rate case on June 28, 2019, in Docket No. W-354, Sub 364, that is pending a Commission decision, in which the Company proposed a pilot program to implement tiered inclining block rates for water customers in The Point Subdivision in Iredell County.

customers would impact an average per customer usage level too. Depending on the size and usage patterns of a system, its sale could result in the authorized average per customer usage level being under- or over-stated. The Public Staff's Proposal does not make a fixed element variable; it actually silences a variable, which simplifies the analysis.

Previously, the Companies stated that there was a problem with revenue stability – i.e., the inability to achieve the revenue requirement approved by the Commission in a rate case. With their proposed mechanisms, the Companies are seeking a nearly guaranteed rate of return as opposed to a reasonable *opportunity* to earn the Commission-authorized rate of return. The use of the average usage per customer shifts the intended outcome of the mechanisms from revenue stability to guaranteed rate of return. The Companies exacerbate this issue by asserting that “[t]o freeze revenues would put the cost of all expense increases fully on the utility shareholders, further eroding return on equity, largely negating the purpose of the statute, and necessarily leading to more frequent rate cases.” Usage revenues are being stabilized by the Public Staff's Proposal and base facilities charges from new customers would still contribute to offsetting cost of service.

Public Staff Engineer Charles Junis addressed the importance and impact of utilizing total authorized consumption verses average per customer usage as the benchmark in a CAM as follows:

Growth has been accounted for by focusing on the total usage of each rate classification. The present, Company proposed, Public Staff recommended, and Commission approved service commodity revenues and the newly authorized rates resulting from a general

rate case are determined based on the pro forma test year usage. The Company's reliance on an average monthly usage per customer adds the additional and complicating variable of the number of customers in the denominator. The average mitigates the short-term revenue gains from customer growth that are known to exceed the associated expenses and inflates the calculated usage and revenue variance. For example, if average usage decreases but there is enough customer growth to offset the expected shortfall in total usage, then the Company would meet the authorized usage revenue level. Under this scenario, the WUA revenue variance would be zero and the Company's CAM revenue variance would be equal to the average usage decrease multiplied by the usage rate and the number of customers.

Request for WUA or SUA Mechanisms

The Companies contest the use of a "three-year billing data analysis and the extremely granular constituent components . . ." This is a mischaracterization of the information the Public Staff believes should be part of a general rate case application in which a utility is seeking approval of a WUA/SUA mechanism. The Public Staff's Proposed R7-40(c) would require in part:

- (1) A description of the customer classifications and rate schedules the proposed WUA mechanism would include and the criteria to group customers in a fair and reasonable manner.
- (2) A three-year billing data analysis that includes a detailed breakdown of the monthly active customer counts and monthly usage data by blocks of 1,000 gallons for each year, customer classification, and rate schedule

The three years of billing data at the customer classification and rate schedule level is necessary to evaluate usage trends, assess the completeness and accuracy of billing records, and determine an appropriate and reasonable level of total consumption.

Report Content

The Companies contend that the monthly reports proposed by the Public Staff would “provide no added value” and “would be an unnecessary burden . . . largely duplicative of WSIC/SSIC mechanism filing requirements . . .” The Companies apparently assume that utilities would utilize both the WSIC/SSIC and the WUA/SUA mechanisms, but that may not be the case. Only Aqua and CWSNC have a Commission approved WSIC/SSIC mechanism. In addition, if the information is duplicative then there should be no concern as the utility is already providing the information in its WSIC/SSIC filing and could reference it in its WUA/SUA report or be exempted by the Commission.

Annual Adjustment

The Companies state “[t]here is no timing requirement for the Public Staff action other than its notification to the Commission 15 days in advance prior to scheduling for consideration.” This is not accurate, the Public Staff’s Proposed R7-40(j)(2) states “[t]he Public Staff shall audit the utility’s actual gallons billed, the actual services revenues, actual WUA Charge revenues, and EMF computation, and shall file a report on its audit no later than 45 days after the end of the WUA Period of the utility.”

The Companies compare the semi-annual review of WSIC/SSIC construction activity to the proposed WUA/SUA, which the Companies indicate “will be comprised of consistently structured and easily verifiable data.” Both, Aqua and CWSNC have had significant issues providing “consistently structured and easily verifiable” billing data in their general rate cases. For example, the testimony

of Public Staff Engineer Gina Casselberry states regarding CWSNC's billing data, "[t]he Company is still unable to provide the Public Staff with an accurate count of active customers for the test period."² In Aqua's previous general rate case in Docket No. W-218, Sub 497, Public Staff Engineer Charles Junis worked cooperatively with Aqua's billing data consultant to calculate the normalized and pro forma billing determinants. However, after Mr. Junis filed his pre-filed direct testimony the Company presented previously uncommunicated concerns with the billing determinants.

In consideration of the foregoing and of the Companies' ongoing WSIC/SSIC mechanisms, secondary water quality project evaluations, and the frequency of general rate cases, the Public Staff believes the Companies' proposal that utilities file the request for initiation/update of the WUA/SUA Charge/Credit subject to 14 days' notice to the Commission and Public Staff to be unreasonably short, especially if these matters are to be presented at the Commission's Regular Staff Conference.

WUA/SUA Charge/Credit

The CUT and MDT are directly applied to the usage rate as a tariff revision. The Public Staff's proposal that the WUA/SUA Charge/Credit should be applied to the usage rate is consistent with that practice.

² For the full discussion of Ms. Casselberry's billing data concerns, please see page 14, line 12, through page 16, line 11, Direct Testimony of Public Staff Engineer Gina Casselberry filed in Docket No. W-354, Sub 364, on November 4, 2019.

WUA/SUA Period

Regarding the complication of a general rate case outcome during a WUA/SUA Period, the Public Staff's Proposed R7-40(g)(2)e. reads as follows:

- e. If a WUA Period is bifurcated by a rate case order with a new annualized consumption and/or authorized usage rate, the Commission approved service revenue, calculated according to Section (a) above, shall be prorated for the months of service under the applicable Commission approved service revenue.

The Companies note that the seasonal variability of water consumption would adversely affect a simple proration and potentially have a disproportional effect. While the Public Staff recognizes this concern, the Companies' proposed solution requires a new and unprecedented level of granularity in the billing analysis process to determine authorized consumption for each month. The Companies "submit that any Order should explicitly indicate the monthly distribution of average per customer usage that drives the rate calculation, and that figure should be the basis for each monthly true-up calculation." If the mechanism was implemented monthly, perhaps this would be appropriate, however, there can be month-to-month and year-to-year variability. A three-year average smooths this variability. Determining monthly consumption, or monthly average per customer usage as the Companies advocate would create new problems. For example, if the test year includes a wet summer and usage lower than that of the past years, the Companies may seek to adjust those consumption levels despite the 12-month data being relatively consistent. The Public Staff's Proposed Rules seek to simplify the mechanism as opposed to creating new complications.

Interest

The Companies contend that interest should be applied to under-collections and over-collections. Furthermore, the Companies state any interest should be equal to a “short-term risk-free benchmark rate, preferably the 1-year U.S. Treasury.” The Company’s authorized overall rate of return is the interest rate applied to the CUT/MDT.

Risk

A WUA/SUA mechanism benefits the Company by providing greater certainty as to the amount of service revenues collected from customers for their usage and as a result materially reduces the Company’s business risk. To balance the benefits to the Company, the Company’s authorized rate of return should be reduced to account for the transfer of risk from the Company to customers. Furthermore, the Companies’ Revised Proposed Rules reduce the business risk more than the Public Staff’s Proposed Rules. This should be a consideration in future general rate cases if the Commission authorizes a WUA/SUA. In addition, implementation of a CAM would potentially disincentivize customers from actively conserving water by monitoring their usage, changing their usage habits, and replacing inefficient fixtures and/or appliances.

Modifications to the Proposed Rules

The Companies’ Revised Proposed Rules R7-40 and R10-27 tip the balance of ratemaking in the favor of the utility instead of striking an appropriate balance between the interests of the utility and customers. The Public Staff asserts that its Proposed R7-40 and R10-27 better achieve this balance than the

Companies' proposed rules. However, the Public Staff has identified several areas for improvement and has therefore modified its Proposal as follows:

- Monthly filings would be made within 30 days after the end of each calendar month. Quarterly reports were considered, however, this would be inconsistent with the CUT/MDT and issues arise between the effective date of the WUA/SUA Period and calendar quarters. For example, if the WUA/SUA Period begins on February 1, then four calendar quarterly reports would result in only 11 months of actual usage data.
- The requirements in items a., b., and c. of R7-40(k)(1) and R10-27(k)(1) could be relieved if the utility has an approved WSIC/SSIC mechanism.
- For clarification, newly acquired systems would be excluded from the WUA/SUA mechanism until the utility's next general rate case.
- The WUA/SUA Charge/Credit would be an increment/decrement in the form of a usage rate as a separate bill line item.
- The EMF would be eliminated as it is unnecessary with a continuous accounting of the deferral balance.

WHEREFORE, the Public Staff prays:

1. That the Commission adopt the proposed rules attached hereto as Exhibits A and B, as modified in consideration of the initial comments from interveners; and
2. For such other and further relief as the Commission may deem just and proper.

Respectfully submitted this the 28th day of February, 2020.

PUBLIC STAFF
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Executive Director

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CERTIFICATE OF SERVICE

I certify that a copy of these Comments have 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 28th day of February, 2020.

Electronically submitted
/s/ William E. Grantmyre

R7-40 WATER USAGE ADJUSTMENT MECHANISM

(a) Scope of Rule.—This rule provides the procedure for the approval and administration of a rate adjustment mechanism pursuant to N.C. Gen. Stat. § 62-133.12A to allow a utility to track and true-up variations in customer water usage from levels approved by the Commission in the most recent general rate case proceeding. This rule excludes flat rate customers, purchased water customers, and customers in systems acquired since the last general rate case proceeding.

(b) Definitions.—As used in this rule:

(1) “Water Usage Adjustment Charge or Credit” means an increment or decrement adjustment to the applicable usage rate that allows a utility to recover or credit the revenue variations attributable to usage variations.

(2) “Water system adjustment or WUA mechanism” means a rate adjustment mechanism approved by the Commission in a general rate case pursuant to G.S. 62-133.12A.

(3) “WUA Period” means the 12-month period beginning the first full month following the effective date of rates approved by the Commission in conjunction with the approval of a WUA mechanism in a general rate case proceeding.

(c) Request for Water Usage Adjustment Mechanism.—A utility seeking approval of a WUA mechanism shall include in its application for a general rate increase under G.S. 62-133 and Commission Rule R1-17 the following:

(1) A description of the customer classifications and rate schedules the proposed WUA mechanism would include and the criteria to group customers in a fair and reasonable manner.

(2) A three-year billing data analysis that includes a detailed breakdown of the monthly active customer counts and monthly usage data by blocks of 1,000 gallons for each year, customer classification, and rate schedule; and

(3) Testimony, affidavits, exhibits, or other evidence demonstrating that a WUA mechanism is in the public interest.

(4) Any other information required by the Commission.

(d) Customer Notice.—The notice to customers of the utility's general rate case application shall include the proposed WUA mechanism.

(e) General Rate Case Review.—Following notice and hearing, the Commission shall approve a WUA mechanism only upon a finding that it is in the public interest.

(f) Initiation of Adjustment.—Once a WUA mechanism is approved and subsequent to the WUA period, the utility shall file a request for authority to impose the water usage adjustment charge pursuant to the mechanism, to be effective no less than 60 days after filing the request. The Company shall also provide a copy of the request to the Public Staff. Prior to the effective date, the Public Staff shall schedule the request for Commission consideration at the regularly scheduled staff conference and recommend that the Commission issue an order approving, modifying and approving, or rejecting the proposed water usage adjustment

charge. The Public Staff shall formally notify the Commission at least 7 days in advance of the date that the request shall be scheduled for Commission consideration at the regularly scheduled staff conference.

(g) Computation of WUA Charge/Credit.–

(1) The WUA Charge/Credit shall be expressed as an increment/decrement calculated to the nearest whole cent per 1,000 gallons and shall be applied to the usage rate under the utility's applicable service rates and charges.

(2) The WUA Charge/Credit shall be computed for each customer classification and rate schedule as follows:

- a. Commission approved service revenue shall equal the annualized consumption in thousands of gallons multiplied by the Commission authorized usage rate from the most recent general rate case;
- b. WUA period service revenue shall equal actual consumption during the 12-month WUA Period multiplied by the presently authorized usage rate;
- c. WUA Revenue Variation shall equal the Commission approved service revenue less the WUA Period revenue;
- d. Any actual WUA Charge/Credit activity emanating from active WUA mechanism rates shall be combined with the WUA Revenue Variation to determine the Net WUA Revenue Variation;

- e. The Net WUA Revenue Variation plus the prior month's WUA Deferral Balance shall equal the current month's Accumulated WUA Variance Balance before interest;
- f. The Accumulated WUA Variance Balance before interest at the end of the current month will be averaged with the prior month's WUA Deferral Balance to determine the Average WUA Variance Balance. This Average WUA Variance Balance will be multiplied by one-twelfth of the Company's authorized overall rate of return in the most recent general rate case to calculate the Accrued Interest;
- g. The sum of the current month's Accumulated WUA Variance Balance and the Accrued Interest shall be equal to the current month's WUA Deferral Balance;
- h. WUA Charge/Credit shall be an increment/decrement equal to the WUA Deferral Balance divided by the annualized consumption from Section (a) above; and
- i. If a WUA Period is bifurcated by a rate case order with a new annualized consumption and/or authorized usage rate, the Commission approved service revenue, calculated according to Section (a) above, shall be prorated for the months of service under the applicable Commission approved service revenue.

(h) Annual Adjustments.—A utility shall file a request for a WUA annually after the first implementation of a WUA Charge/Credit after completion of a general rate case proceeding.

(1) The calculation and the supporting data for an annual adjustment shall be filed with the Commission within 30 days after the end of the WUA Period.

(2) The procedural requirements set forth in subsection (f) of this Rule shall apply to requests for annual adjustments.

(j) Audit and Reconciliation.—The WUA shall be subject to the following:

(1) Within 30 days following the end of each WUA Period, each utility shall file a report, in a format prescribed by the Commission, reconciling its actual gallons billed, the actual service revenues, and actual WUA Charge revenues, for each customer classification and rate schedule.

(2) The Public Staff shall audit the utility's actual gallons billed, the actual services revenues, and actual WUA Charge revenues, and shall file a report on its audit no later than 45 days after the end of the WUA Period of the utility.

(k) Monthly Filings with the Commission.—Within 30 days after the end of each full calendar month, the utility shall file the following reports in a format prescribed by the Commission:

(1) A monthly earnings report consisting of the following:

a. A balance sheet and income statement for the calendar month and calendar year to date for the utility;

- b. A statement of per books net operating income for the calendar month and calendar year to date for each rate division of the utility based on North Carolina ratemaking;
- c. The number of customers and gallons sold for each month of the calendar quarter for each rate division, customer classification, and rate type;
- d. The total revenues for each system excluding flat rate and purchased water systems; and
- e. Items a., b., and c., may be excluded if the Commission has authorized the utility to implement a WSIC/SSIC mechanism and utility is appropriately submitting the required Quarterly Filings pursuant to R7-39.

(2) A monthly report of WUA collections/payments from/to customers consisting of the amounts collected/paid for the calendar month for each customer classification and rate schedule (i.e. uniform residential, uniform commercial, standalone, etc.).

(l) Elimination or Modification of WUA Mechanism.—After notice to the utility and opportunity to be heard, the Commission may eliminate or modify any previously authorized WUA mechanism upon a finding that it is not in the public interest.

(m) Burden of Proof.—The burden of proof as to whether a WUA mechanism is in the public interest and the correctness and reasonableness of any WUA Charge shall be on the utility.

(NCUC Docket No. W-100, Sub 61, XX/XX/20XX)

R10-27 SEWER USAGE ADJUSTMENT MECHANISM

(a) Scope of Rule.—This rule provides the procedure for the approval and administration of a rate adjustment mechanism pursuant to N.C. Gen. Stat. § 62-133.12A to allow a utility to track and true-up variations in customer sewer usage from levels approved by the Commission in the most recent general rate case proceeding. This rule excludes flat rate customers, purchased bulk sewer treatment customers, and customers in systems acquired since the last general rate case proceeding.

(b) Definitions.—As used in this rule:

(1) “Sewer Usage Adjustment Charge or Credit” means an increment or decrement adjustment to the applicable usage rate that allows a utility to recover or credit the revenue variations attributable to usage variations.

(2) “Sewer system adjustment or SUA mechanism” means a rate adjustment mechanism approved by the Commission in a general rate case pursuant to G.S. 62-133.12A.

(3) “SUA Period” means the 12-month period beginning the first full month following the effective date of rates approved by the Commission in conjunction with the approval of a SUA mechanism in a general rate case proceeding.

(c) Request for Sewer Usage Adjustment Mechanism.—A utility seeking approval of a SUA mechanism shall include in its application for a general rate increase under G.S. 62-133 and Commission Rule R1-17 the following:

(1) A description of the customer classifications and rate schedules the proposed SUA mechanism would include and the criteria to group customers in a fair and reasonable manner.

(2) A three-year billing data analysis that includes a detailed breakdown of the monthly active customer counts and monthly usage data by blocks of 1,000 gallons for each year, customer classification, and rate schedule; and

(3) Testimony, affidavits, exhibits, or other evidence demonstrating that a SUA mechanism is in the public interest.

(4) Any other information required by the Commission.

(d) Customer Notice.—The notice to customers of the utility's general rate case application shall include the proposed SUA mechanism.

(e) General Rate Case Review.—Following notice and hearing, the Commission shall approve a SUA mechanism only upon a finding that it is in the public interest.

(f) Initiation of Adjustment.—Once a SUA mechanism is approved and subsequent to the SUA period, the utility shall file a request for authority to impose the sewer usage adjustment charge pursuant to the mechanism, to be effective no less than 60 days after filing the request. The Company shall also provide a copy of the request to the Public Staff. Prior to the effective date, the Public Staff shall

schedule the request for Commission consideration at the regularly scheduled staff conference and recommend that the Commission issue an order approving, modifying and approving, or rejecting the proposed sewer usage adjustment charge. The Public Staff shall formally notify the Commission at least 7 days in advance of the date that the request shall be scheduled for Commission consideration at the regularly scheduled staff conference.

(g) Computation of SUA Charge/Credit.–

(1) The SUA Charge/Credit shall be expressed as an increment/decrement calculated to the nearest whole cent per 1,000 gallons and shall be applied to the usage rate under the utility's applicable service rates and charges.

(2) The SUA Charge/Credit shall be computed for each customer classification and rate schedule as follows:

- a. Commission approved service revenue shall equal the annualized consumption in thousands of gallons multiplied by the Commission authorized usage rate from the most recent general rate case;
- b. SUA period service revenue shall equal actual consumption during the 12-month SUA Period multiplied by the presently authorized usage rate;
- c. SUA Revenue Variation shall equal the Commission approved service revenue less the SUA Period revenue;

- d. Any actual SUA Charge/Credit activity emanating from active SUA mechanism rates shall be combined with the SUA Revenue Variation to determine the Net SUA Revenue Variation;
- e. The Net SUA Revenue Variation plus the prior month's SUA Deferral Balance shall equal the current month's Accumulated SUA Variance Balance before interest.
- f. The Accumulated SUA Variance Balance before interest at the end of the current month will be averaged with the prior month's SUA Deferral Balance to determine the Average SUA Variance Balance. This Average SUA Variance Balance will be multiplied by one-twelfth of the Company's authorized overall rate of return in the most recent general rate case to calculate the Accrued Interest.
- g. The sum of the current month's Accumulated SUA Variance Balance and the Accrued Interest shall be equal to the current month's SUA Deferral Balance.
- h. SUA Charge/Credit shall be an increment/decrement equal to the SUA Deferral Balance divided by the annualized consumption from Section (a) above; and
- i. If a SUA Period is bifurcated by a rate case order with a new annualized consumption and/or authorized usage rate, the Commission approved service revenue, calculated

according to Section (a) above, shall be prorated for the months of service under the applicable Commission approved service revenue.

(h) Annual Adjustments.—A utility shall file a request for a SUA annually after the first implementation of a SUA Charge/Credit after completion of a general rate case proceeding.

(1) The calculation and the supporting data for an annual adjustment shall be filed with the Commission within 30 days after the end of the SUA Period.

(2) The procedural requirements set forth in subsection (f) of this Rule shall apply to requests for annual adjustments.

(j) Audit and Reconciliation.—The SUA shall be subject to the following:

(1) Within 30 days following the end of each SUA Period, each utility shall file a report, in a format prescribed by the Commission, reconciling its actual gallons billed, the actual service revenues, and actual SUA Charge revenues, for each customer classification and rate schedule.

(2) The Public Staff shall audit the utility's actual gallons billed, the actual services revenues, and actual SUA Charge revenues, and shall file a report on its audit no later than 45 days after the end of the SUA Period of the utility.

(k) Monthly Filings with the Commission.—Within 30 days after the end of each full calendar month, the utility shall file the following reports in a format prescribed by the Commission:

- (1) A monthly earnings report consisting of the following:
 - a. A balance sheet and income statement for the calendar month and calendar year to date for the utility;
 - b. A statement of per books net operating income for the calendar month and calendar year to date for each rate division of the utility based on North Carolina ratemaking;
 - c. The number of customers and gallons sold for each month of the calendar quarter for each rate division, customer classification, and rate type;
 - d. The total revenues for each system excluding flat rate and purchased bulk sewer treatment systems; and
 - e. Items a., b., and c., may be excluded if the Commission has authorized the utility to implement a WSIC/SSIC mechanism and utility is appropriately submitting the required Quarterly Filings pursuant to R10-26.

- (2) A monthly report of SUA collections/payments from/to customers consisting of the amounts collected/paid for the calendar month for each customer classification and rate schedule (i.e. uniform residential, uniform commercial, standalone, etc.).

(l) Elimination or Modification of SUA Mechanism.—After notice to the utility and opportunity to be heard, the Commission may eliminate or modify any previously authorized SUA mechanism upon a finding that it is not in the public interest.

(m) Burden of Proof.—The burden of proof as to whether a SUA mechanism is in the public interest and the correctness and reasonableness of any SUA Charge shall be on the utility.

(NCUC Docket No. W-100, Sub 61, XX/XX/20XX)

R7-40 WATER USAGE ADJUSTMENT MECHANISM

(a) Scope of Rule.—This rule provides the procedure for the approval and administration of a rate adjustment mechanism pursuant to G.S.N.C. Gen. Stat. § 62-133.12A to allow a utility to track and true-up variations in customer water usage from levels approved by the Commission in the most recent general rate case proceeding. This rule excludes flat rate customers, ~~and~~ purchased water customers, and customers in systems acquired since the last general rate case proceeding.

(b) Definitions.—As used in this rule:

(1) “Water Usage Adjustment Charge or Credit” means an increment or decrement adjustment to the applicable usage rate that allows a utility to recover or credit the revenue variations attributable to usage variations.

(2) “Water system adjustment or WUA mechanism” means a rate adjustment mechanism approved by the Commission in a general rate case pursuant to G.S. 62-133.12A.

(3) “WUA Period” means the 12-month period beginning the first full month following the effective date of rates approved by the Commission in conjunction with the approval of a WUA mechanism in a general rate case proceeding.

(c) Request for Water Usage Adjustment Mechanism.—A utility seeking approval of a WUA mechanism shall include in its application for a general rate increase under G.S. 62-133 and Commission Rule R1-17 the following:

(1) A description of the customer classifications and rate schedules the proposed WUA mechanism would include and the criteria to group customers in a fair and reasonable manner.

(2) A three-year billing data analysis that includes a detailed breakdown of the monthly active customer counts and monthly usage data by blocks of 1,000 gallons for each year, customer classification, and rate schedule; and

(3) Testimony, affidavits, exhibits, or other evidence demonstrating that a WUA mechanism is in the public interest.

(4) Any other information required by the Commission.

(d) Customer Notice.—The notice to customers of the utility's general rate case application shall include the proposed WUA mechanism.

(e) General Rate Case Review.—Following notice and hearing, the Commission shall approve a WUA mechanism only upon a finding that it is in the public interest.

(f) Initiation of Adjustment.—Once a WUA mechanism is approved and subsequent to the WUA period, the utility shall file a request for authority to impose the water usage adjustment charge pursuant to the mechanism, to be effective no less than 60 days after filing the request. The Company shall also provide a copy of the request to the Public Staff. Prior to the effective date, the Public Staff shall

schedule the request for Commission consideration at the regularly scheduled staff conference and recommend that the Commission issue an order approving, modifying and approving, or rejecting the proposed water usage adjustment charge. The Public Staff shall formally notify the Commission at least ~~15~~7 days in advance of the date that the request shall be scheduled for Commission consideration at the regularly scheduled staff conference.

(g) Computation of WUA Charge/Credit.—

(1) The WUA Charge/Credit shall be expressed as an increment/decrement calculated to the nearest whole cent per 1,000 gallons and shall be applied to the usage rate under the utility's applicable service rates and charges.

(2) The WUA Charge/Credit shall be computed for each customer classification and rate schedule as follows:

a. Commission approved service revenue shall equal the annualized consumption in thousands of gallons multiplied by the Commission authorized usage rate from the most recent general rate case;

b. WUA period service revenue shall equal actual consumption during the 12-month WUA Period multiplied by the presently authorized usage rate;

c. WUA Revenue Variation shall equal the Commission approved service revenue less the WUA Period revenue;

d. Any actual WUA Charge/Credit activity emanating from active WUA mechanism rates shall be combined with the WUA Revenue Variation to determine the Net WUA Revenue Variation;

e. The Net WUA Revenue Variation plus the prior month's WUA Deferral Balance shall equal the current month's Accumulated WUA Variance Balance before interest;

f. The Accumulated WUA Variance Balance before interest at the end of the current month will be averaged with the prior month's WUA Deferral Balance to determine the Average WUA Variance Balance. This Average WUA Variance Balance will be multiplied by one-twelfth of the Company's authorized overall rate of return in the most recent general rate case to calculate the Accrued Interest;

~~e.g.~~ The sum of the current month's Accumulated WUA Variance Balance and the Accrued Interest shall be equal to the current month's WUA Deferral Balance;

~~d.h.~~ WUA Charge/Credit shall be an increment/decrement equal to the ~~WUA Revenue Variation~~ WUA Deferral Balance divided by the annualized consumption from Section (a) above; ~~and~~

~~e.i.~~ If a WUA Period is bifurcated by a rate case order with a new annualized consumption and/or authorized usage rate,

the Commission approved service revenue, calculated according to Section (a) above, shall be prorated for the months of service under the applicable Commission approved service revenue.

(h) Annual Adjustments.—A utility shall file a request for a WUA annually after the first implementation of a WUA Charge/Credit after completion of a general rate case proceeding.

(1) The calculation and the supporting data for an annual adjustment shall be filed with the Commission within 15-30 days after the end of the WUA Period.

(2) The procedural requirements set forth in subsection (f) of this Rule shall apply to requests for annual adjustments.

~~_(i) — Experience Modification Factor.—The WUA shall be modified through the use of an experience modification factor (EMF) that reflects the difference between the WUA Revenue Variation and the revenues that were actually realized under the WUA Charge/Credit during the WUA Period. The EMF shall remain in effect for a 12-month period. Pursuant to G.S. 62-130(e), any over-collection of usage adjustment mechanism revenues shall be refunded to a utility's customers through operation of the EMF shall include an amount of interest at such rate as the Commission determines to be just and reasonable, not to exceed the maximum statutory rate.~~

(j) Audit and Reconciliation.—The WUA shall be subject to the following:

(1) Within ~~45-30~~ days following the end of each WUA Period, each utility shall file a report, in a format prescribed by the Commission, reconciling its actual gallons billed, the actual service revenues, and actual WUA Charge revenues, ~~and EMF computation,~~ for each customer classification and rate schedule.

(2) The Public Staff shall audit the utility's actual gallons billed, the actual services revenues, and actual WUA Charge revenues, ~~and EMF computation,~~ and shall file a report on its audit no later than 45 days after the end of the WUA Period of the utility.

(k) Monthly Filings with the Commission.—Within ~~45-30~~ days after the end of each full calendar month, the utility shall file the following reports in a format prescribed by the Commission:

- (1) A monthly earnings report consisting of the following:
 - a. A balance sheet and income statement for the calendar month and calendar year to date for the utility;
 - b. A statement of per books net operating income for the calendar month and calendar year to date for each rate division of the utility based on North Carolina ratemaking;
 - c. The number of customers and gallons sold for each month of the calendar quarter for each rate division, customer classification, and rate type;
 - d. The total revenues for each system excluding flat rate and purchased water systems; ~~and~~

~~d-e.~~ Items a., b., and c., may be excluded if the Commission has authorized the utility to implement a WSIC/SSIC mechanism and utility is appropriately submitting the required Quarterly Filings pursuant to R7-39.

(2) A monthly report of WUA collections/payments from/to customers consisting of the amounts collected/paid for the calendar month for each customer classification and rate schedule (i.e. uniform residential, uniform commercial, standalone, etc.).

(l) Elimination or Modification of WUA Mechanism.—After notice to the utility and opportunity to be heard, the Commission may eliminate or modify any previously authorized WUA mechanism upon a finding that it is not in the public interest.

(m) Burden of Proof.—The burden of proof as to whether a WUA mechanism is in the public interest and the correctness and reasonableness of any WUA Charge shall be on the utility.

(NCUC Docket No. W-100, Sub 61, XX/XX/20XX)

R10-27 SEWER USAGE ADJUSTMENT MECHANISM

(a) Scope of Rule.—This rule provides the procedure for the approval and administration of a rate adjustment mechanism pursuant to G.S.N.C. Gen. Stat. § 62-133.12A to allow a utility to track and true-up variations in customer sewer usage from levels approved by the Commission in the most recent general rate case proceeding. This rule excludes flat rate customers ~~and~~ and purchased bulk sewer treatment customers and customers in systems acquired since the last general rate case proceeding.

(b) Definitions.—As used in this rule:

(1) “Sewer Usage Adjustment Charge or Credit” means an increment or decrement adjustment to the applicable usage rate that allows a utility to recover or credit the revenue variations attributable to usage variations.

(2) “Sewer system adjustment or SUA mechanism” means a rate adjustment mechanism approved by the Commission in a general rate case pursuant to G.S. 62-133.12A.

(3) “SUA Period” means the 12-month period beginning the first full month following the effective date of rates approved by the Commission in conjunction with the approval of a SUA mechanism in a general rate case proceeding.

(c) Request for Sewer Usage Adjustment Mechanism.—A utility seeking approval of a SUA mechanism shall include in its application for a general rate increase under G.S. 62-133 and Commission Rule R1-17 the following:

(1) A description of the customer classifications and rate schedules the proposed SUA mechanism would include and the criteria to group customers in a fair and reasonable manner.

(2) A three-year billing data analysis that includes a detailed breakdown of the monthly active customer counts and monthly usage data by blocks of 1,000 gallons for each year, customer classification, and rate schedule; and

(3) Testimony, affidavits, exhibits, or other evidence demonstrating that a SUA mechanism is in the public interest.

(4) Any other information required by the Commission.

(d) Customer Notice.—The notice to customers of the utility's general rate case application shall include the proposed SUA mechanism.

(e) General Rate Case Review.—Following notice and hearing, the Commission shall approve a SUA mechanism only upon a finding that it is in the public interest.

(f) Initiation of Adjustment.—Once a SUA mechanism is approved and subsequent to the SUA period, the utility shall file a request for authority to impose the sewer usage adjustment charge pursuant to the mechanism, to be effective no less than 60 days after filing the request. The Company shall also provide a copy of the request to the Public Staff. Prior to the effective date, the Public Staff shall

schedule the request for Commission consideration at the regularly scheduled staff conference and recommend that the Commission issue an order approving, modifying and approving, or rejecting the proposed sewer usage adjustment charge. The Public Staff shall formally notify the Commission at least 745 days in advance of the date that the request shall be scheduled for Commission consideration at the regularly scheduled staff conference.

(g) Computation of SUA Charge/Credit.–

(1) The SUA Charge/Credit shall be expressed as an increment/decrement calculated to the nearest whole cent per 1,000 gallons and shall be applied to the usage rate under the utility's applicable service rates and charges.

(2) The SUA Charge/Credit shall be computed for each customer classification and rate schedule as follows:

- a. Commission approved service revenue shall equal the annualized consumption in thousands of gallons multiplied by the Commission authorized usage rate from the most recent general rate case;
- b. SUA period service revenue shall equal actual consumption during the 12-month SUA Period multiplied by the presently authorized usage rate;
- c. SUA Revenue Variation shall equal the Commission approved service revenue less the SUA Period revenue;

d. Any actual SUA Charge/Credit activity emanating from active SUA mechanism rates shall be combined with the SUA Revenue Variation to determine the Net SUA Revenue Variation;

e. The Net SUA Revenue Variation plus the prior month's SUA Deferral Balance shall equal the current month's Accumulated SUA Variance Balance before interest.

f. The Accumulated SUA Variance Balance before interest at the end of the current month will be averaged with the prior month's SUA Deferral Balance to determine the Average SUA Variance Balance. This Average SUA Variance Balance will be multiplied by one-twelfth of the Company's authorized overall rate of return in the most recent general rate case to calculate the Accrued Interest.

g. The sum of the current month's Accumulated SUA Variance Balance and the Accrued Interest shall be equal to the current month's SUA Deferral Balance.

~~d.h.~~ SUA Charge/Credit shall be an increment/decrement equal to the ~~SUA Revenue Variation~~ SUA Deferral Balance divided by the annualized consumption from Section (a) above; and

~~e.i.~~ If a SUA Period is bifurcated by a rate case order with a new annualized consumption and/or authorized usage rate,

the Commission approved service revenue, calculated according to Section (a) above, shall be prorated for the months of service under the applicable Commission approved service revenue.

(h) Annual Adjustments.—A utility shall file a request for a SUA annually after the first implementation of a SUA Charge/Credit after completion of a general rate case proceeding.

(1) The calculation and the supporting data for an annual adjustment shall be filed with the Commission within 15-30 days after the end of the SUA Period.

(2) The procedural requirements set forth in subsection (f) of this Rule shall apply to requests for annual adjustments.

~~_(i) — Experience Modification Factor. The SUA shall be modified through the use of an experience modification factor (EMF) that reflects the difference between the SUA Revenue Variation and the revenues that were actually realized under the SUA Charge/Credit during the SUA Period. The EMF shall remain in effect for a 12-month period. Pursuant to G.S. 62-130(e), any over-collection of usage adjustment mechanism revenues shall be refunded to a utility's customers through operation of the EMF shall include an amount of interest at such rate as the Commission determines to be just and reasonable, not to exceed the maximum statutory rate.~~

(j) Audit and Reconciliation.—The SUA shall be subject to the following:

(1) Within ~~15-30~~ days following the end of each SUA Period, each utility shall file a report, in a format prescribed by the Commission, reconciling its actual gallons billed, the actual service revenues, and actual SUA Charge revenues, ~~and EMF computation,~~ for each customer classification and rate schedule.

(2) The Public Staff shall audit the utility's actual gallons billed, the actual services revenues, and actual SUA Charge revenues, ~~and EMF computation,~~ and shall file a report on its audit no later than 45 days after the end of the SUA Period of the utility.

(k) Monthly Filings with the Commission.—Within ~~15-30~~ days after the end of each full calendar month, the utility shall file the following reports in a format prescribed by the Commission:

- (1) A monthly earnings report consisting of the following:
 - a. A balance sheet and income statement for the calendar month and calendar year to date for the utility;
 - b. A statement of per books net operating income for the calendar month and calendar year to date for each rate division of the utility based on North Carolina ratemaking;
 - c. The number of customers and gallons sold for each month of the calendar quarter for each rate division, customer classification, and rate type;
 - d. The total revenues for each system excluding flat rate and purchased bulk sewer treatment systems; ~~and.~~

d-e. Items a., b., and c., may be excluded if the Commission has authorized the utility to implement a WSIC/SSIC mechanism and utility is appropriately submitting the required Quarterly Filings pursuant to R10-26.

(2) A monthly report of SUA collections/payments from/to customers consisting of the amounts collected/paid for the calendar month for each customer classification and rate schedule (i.e. uniform residential, uniform commercial, standalone, etc.).

(l) Elimination or Modification of SUA Mechanism.—After notice to the utility and opportunity to be heard, the Commission may eliminate or modify any previously authorized SUA mechanism upon a finding that it is not in the public interest.

(m) Burden of Proof.—The burden of proof as to whether a SUA mechanism is in the public interest and the correctness and reasonableness of any SUA Charge shall be on the utility.

(NCUC Docket No. W-100, Sub 61, XX/XX/20XX)