

SANFORD LAW OFFICE, PLLC
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January 25, 2021

Ms. Kimberley A. Campbell, Chief Clerk
North Carolina Utilities Commission
4325 Mail Service Center
Raleigh, North Carolina 27699-4325

Via Electronic Delivery

Re: Aqua North Carolina, Inc.
Docket No. W-218, Sub 526A
Accounting Policy Review__Utility Plant in Service

Dear Ms. Campbell:

By order in Docket No. W-218 Sub 526, issued on October 26, 2020, the North Carolina Utilities Commission (“NCUC” or “Commission”) directed Aqua North Carolina, Inc. (“Aqua” or “Company”) to conduct a comprehensive review of its current accounting procedures and policies for determining when projects are complete, in-service, and booked to plant in-service. The Company was required to file its findings with respect to its internal accounting practices and policies and its plans or recommendations regarding changes in those procedures and policies, within 90 days of October 26, 2020. Aqua was further instructed to consult with the Public Staff in that process. The Company and the Public Staff have collaborated on the review of this document, and Aqua appreciates the Public Staff’s input. This filing represents compliance with the Commission order with respect to accounting treatment of UPIS.

As always, we thank you and your staff for your assistance; please feel free to contact me if there are questions or if additional information is required.

Electronically Submitted

/s/Jo Anne Sanford

State Bar No. 6831

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ACCOUNTING POLICY REVIEW

TOPIC: UPIS Practice and Policy Review

RESPONSIBILITY: North Carolina Finance Department

BACKGROUND:

In order that the North Carolina Utilities Commission ("Commission" or "NCUC") may fully and finally resolve this issue on a prospective basis, Aqua North Carolina, Inc. ("Aqua NC" or "Company") has been directed to conduct a comprehensive review of its current procedures and policies for determining when projects are complete, in-service, and booked to plant in-service. The Company is required to file its findings with respect to its internal accounting practices and policies and any plans or recommendations regarding changes in those procedures and policies, and hereby does so within 90 days of the date of the rate case Order in Docket No. W-218, Sub 526. The stated purpose of this requirement is to evaluate the merits and challenges of establishing prospective practices and policies which are understood by the Company, the Public Staff, and the Commission so that issues such as those raised in the Docket No. W-218, Sub 526 rate case do not arise in the future.

Aqua NC's comprehensive review of its Utility Plant In Service ("UPIS") practices and policies is required to include an analysis of whether the Company can utilize the functionality provided by PowerPlan as discussed at the Sub 526 expert witness hearing by witnesses Junis and Thill. The proposed functionality utilizes the Completed Construction but Not Classified ("CCNC") process to ensure that Allowance for Funds Used During Construction ("AFUDC") ends and depreciation begins timely. After all costs have accumulated in CCNC, the entire project can be unitized and completed.

AQUA NC's REVIEW SUMMARY:

Aqua NC completed its comprehensive review of its UPIS practices and policies and determined that it is reasonable and practicable for the Company to utilize the CCNC functionality provided by PowerPlan consistent with the advice of the Public



Staff, as noted in testimony at the Sub 526 expert witness hearing by Public Staff witness Junis. (Docket No. W-218, Sub 526 Rate Order, page 129¹)

The current capitalization process requires that all costs must be compiled and unitized before depreciation begins. Although the use of the ½ year depreciation convention under the current process eliminates the impact resulting from short delays between in-service and unitization dates throughout the year, the current process does have an impact for unitization of assets placed in service in one year and unitized the following year. The utilization of the CCNC functionality will help address this concern.

The benefits of utilizing the CCNC functionality will include a consistent and manageable timeline that provides for a project to be placed in service in the month it becomes used and useful, start depreciation on costs recorded once the asset is placed in service, and terminate AFUDC once the asset is placed in service. This allows for the full compilation and recording of support before the final unitization of a project. This practice is also consistent with Duke Energy's (Duke) use of this functionality as well as with that of six states at Aqua America. The implementation of this process is not anticipated to be intricate or overly complicated.

PowerPlan includes a CCNC or "Account 106" function that allows projects to be placed in-service and begin depreciation at the time the project is placed in-service and prior to its unitization. Account 106 is utilized to accumulate all costs associated with open projects that are in-service but may not have had all work completed and/or charges recorded. AFUDC is calculated on open project

¹ "On cross-examination, witness Junis revises this recommendation based on new information that the Company's PowerPlan asset management system includes a function that enables the Company to designate assets as "completed but not classified."³⁵ Witness Junis states that this newly identified function stops the accrual of AFUDC and begins depreciation at a general depreciation rate of the related plant. Witness Junis explains that, after an asset is booked at the general depreciation rate, costs in sub-accounts associated with the various components of the asset would "continue to be accounted for during a designated period of time or until it is believed that all the costs have been captured." He further explains that at the end of this period, the costs that have been collected and the accumulated depreciation that has accrued since the asset's in-service date is booked to the appropriate sub-accounts. *Id.* at 319-21. Witness Junis states that it is his understanding that this function is utilized by various other Commission-regulated utilities in the state including Duke Energy Carolinas, LLC, Duke Energy Progress, LLC, and Piedmont Natural Gas Company, Inc. Witness Junis recommends that the Commission order Aqua NC to also utilize this function." ***Internal footnote omitted.***



balances prior to its in-service date and discontinues once the plant is placed in-service, at which time depreciation begins.

Aqua NC's finance management team connected with Duke and other Aqua states to discuss their handling of the existing CCNC functionality included within PowerPlan to unitize assets, record AFUDC, and begin depreciation. Through these discussions, Duke confirmed their use of the CCNC functionality to begin project depreciation on recorded costs in line with the project's in-service date and in advance of unitization. Duke noted it could take up to a year to unitize a project based on its scope and magnitude. The unitization process for Aqua NC is expected to take a couple of months for most projects but could take longer depending on the project. Aqua NC additionally reviewed the PowerPlan processes employed by its other Aqua America state subsidiaries, noting that most of Aqua America's remaining states currently utilize the CCNC functionality.

CONCLUSION:

Based on Aqua NC's review and discussions noted above, the Company plans to modify its current processes to incorporate the use of the CCNC functionality. As such, Aqua NC proposes to incorporate the following processes beginning April 1, 2021, subject to agreement of the North Carolina Utilities Commission and receipt of an Order, as follows:

Aqua NC's current CWIP report generation and operations review process will remain the same as follows:

- Accounting runs a monthly open Construction Work in Progress ("CWIP") report that includes all current open projects.
- The report is sent to the operations managers and project managers for their review of CWIP balances.
- The managers review and submit updates of the project's status to accounting within two weeks so Accounting may then update PowerPlan accordingly.

Aqua NC proposes to begin to utilize PowerPlan's automated CCNC process (Account 106) for projects which are placed in-service, but not yet unitized, after reviewing the monthly CWIP report generation and operation review process.

- Once a project is designated as in-service by the operations manager or project manager, and as part of their monthly review, accounting identifies the project as in-service in PowerPlan. The recorded project costs are then moved to Account 106 via an

automated process during month end close, at which time the accrual of AFUDC will stop and depreciation on the projects costs will begin.

- The project will remain open in Account 106 to allow for additional project related costs to be recorded as they are received. These additional costs will begin depreciating as they are added to the project's balance and while in Account 106.
- When converting to PowerPlan's CCNC process, Aqua NC will convert to a monthly depreciation protocol and will cease using the ½ year depreciation convention for projects when put into service.
 - Aqua NC currently uses the ½ year convention, meaning, when placed in-service, the project receives ½ year of depreciation for the year in which it is placed in-service, regardless of the in-service date of that year.
 - The new monthly depreciation will allow each month of additional charges to begin depreciation prospectively, as received. For example, if a project is placed in Account 106 in April, depreciation begins on that balance.
- All projects that are identified as in-service will be reviewed monthly by Accounting to determine if all project costs have been received and the projects are ready to be unitized and placed in UPIS.
 - If a project is in-service and not ready to be unitized, the project remains in Account 106 for review in the next month.
 - If a project is ready to be unitized, PowerPlan will use the current month as the date for placing the project in UPIS. Accounting will update the completion date and as-built form in PowerPlan, which will automatically move the project from Account 106 to UPIS (Account 101).
- Assuming Aqua NC has the process in production by April 1st, the Company believes a sample of the process could be available for review by the Public Staff in the latter half of 2021.

Aqua NC has completed its comprehensive review of its existing unitization policy and reviewed the proposed process changes as set forth above with the Public Staff to address the UPIS issues identified in Docket No. W-218, Sub 526. The Public Staff agrees with the proposed process recommendations set forth herein by Aqua NC.