

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. W-218, SUB 526A

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of
Application by Aqua North Carolina, Inc.,)
202 MacKenan Court, Cary, North)
Carolina 27511, for Authority to)
Implement Water and Sewer System)
Improvement Surcharge Rate)
Adjustments Pursuant to N.C. Gen. Stat.)
§ 62-133.12)

PUBLIC STAFF
REPORT

NOW COMES THE PUBLIC STAFF – North Carolina Utilities Commission by and through its Executive Director, Christopher J. Ayers, and respectfully submits its report on the Water System Improvement Charge (WSIC) and Sewer System Improvement Charge (SSIC) collected by Aqua North Carolina, Inc. (Aqua or Company), for the twelve months ended December 31, 2020, (WSIC and SSIC Period) pursuant to Commission Rules R7-39(l)(2) and R10-26(l)(2).

Commission Rules R7-39(b)(7) and R10-26(b)(7) defined the WSIC and SSIC period for Aqua as the 12-month period ended December 31. Aqua filed an application for a general rate increase in Docket No. W-218 Sub 526 on December 31, 2019. The Commission issued an Order Approving Partial Settlement Agreement and Stipulation, Deciding Contested Issues, Granting Partial Rate Increase, and Requiring Customer Notice in that docket on October 26, 2020 (Sub 526 Rate Case Order). Consistent with Commission Rules R7-39(k) and R10-26(k), Aqua WSIC and SSIC surcharges were reset to zero as a result of this docket. The timing of the reset varied by rate division.

In conjunction with Aqua putting interim rates in effect under bond, the WSIC and SSIC surcharges were reset to zero for the Uniform Water, Uniform Sewer and Brookwood Water rate divisions effective August 1, 2020. The Fairways Water and Fairways Sewer rate divisions were reset to zero as of October 26, 2020 – the effective date of the Sub 526 Rate Case Order. Therefore, Aqua's EMF calculations reflect (over)/under collections through October 26, 2020.

Aqua Annual Report

Pursuant to Commission Rules R7-39(l)(1) and R10-26(l)(1), on March 1, 2021, Aqua filed its sixth WSIC/SSIC Annual Report and Experience Modification Factor Calculations (Annual Report) reconciling its actual eligible water and sewer system improvement costs, and actual WSIC and SSIC revenues, and providing its computation of the Experience Modification Factor (EMF) for each of its rate divisions. Under Rules R7-39(j) and R10-26(j), the EMF is to reflect the difference between the WSIC and SSIC revenue requirements and the revenues that were actually realized during the WSIC and SSIC Period. The EMF will remain in effect for a twelve month period, and under N.C. G. S. § 62-133.12(e), any over collections under the system improvement charge will include interest pursuant to N.C. G. S. § 62-130(e).

In its Annual Report, Aqua calculated the following (over) / under collections for the twelve months ended December 31, 2020:

	WSIC / SSIC Revenue Requirement for 2020	WSIC / SSIC Revenues Billed for 2020	(Over) / Under Collection for 2020
Uniform water	\$541,393	\$553,660	(\$12,267)
Uniform sewer	\$106,050	\$105,255	\$795
Fairways water	(\$1,265)	(\$2,425)	\$1,159
Fairways sewer	\$2,155	\$1,224	\$930
Brookwood water	\$115,555	\$113,909	\$1,647

Based on these (over)/under collections, Aqua calculated the following EMFs to be effective for the twelve months beginning on July 1, 2021. In its calculations, Aqua included interest on over collections at an annual rate of 10%:

	(Over)Under Collection Including Interest	Projected Twelve Months Revenues	EMF Effective for 12 Months Beg. 7/1/21
Uniform water	(\$14,107)	\$38,546,489	-0.040%
Uniform sewer	\$795	\$17,370,725	0.005%
Fairways water	\$1,159	\$1,159,708	0.100%
Fairways sewer	\$930	\$2,190,669	0.040%
Brookwood water	\$1,647	\$6,433,919	0.030%

Public Staff Review and Adjustments

The Public Staff has reviewed the Annual Report, and based on this review, the Public Staff is recommending two adjustments to the (over)/under collections reported by Aqua.

1) The “3-Year Gallons” used by Aqua to calculate the second half of the 2020 WSIC/SSIC revenue requirement, included gallons of water from Virginia customers in error and some timing issues. These adjustments resulted in revisions to the (over)/under collection of WSIC revenues for the Aqua Water and Brookwood Water rate divisions as reported by Aqua for the 2020 review period.

2) The overcollection of WSIC revenues as calculated for the Aqua Water rate division, included interest at 10% per annum for 18 months, without any compounding. Interest on the overcollection of WSIC revenues should be compounded annually after the first 12 months and refunded to customers.

Aqua was notified of the adjustments discussed above in a data request sent by the Public Staff along with revised calculations of (over)/under collections based on these adjustments. In response to the Public Staff data request, Aqua agreed with the revised calculations attached to the data request, including the interest calculation.

Based on these recommended adjustments, the Public Staff has calculated the following revised (over)/under collections for the 2020 review period:

	(Over)Under Collection Including Interest Per Public Staff	Projected Twelve Months Revenues	EMF Effective for 12 Months Beg. 7/1/21
Uniform water	(\$13,980)	\$38,546,489	-0.040%
Uniform sewer	\$795	\$17,370,725	0.005%
Fairways water	\$1,159	\$1,159,708	0.100%
Fairways sewer	\$930	\$2,190,669	0.040%
Brookwood water	\$1,655	\$6,433,919	0.030%

As shown in the chart above, Aqua's EMF percentages did not change as a result of the recommended adjustments made by the Public Staff to Aqua's proposed (over)/under collection of WSIC/SSIC revenues for the review period due to the projected 12 months revenues. Therefore, the Public Staff recommends that the EMF percentages as proposed by Aqua be approved for the 2020 review period.

The EMFs calculated by Aqua and the Public Staff are based on the projected twelve month revenues in its Annual Report. These amounts should be consistent with the projected revenues used to calculate the WSIC and SSIC percentages to be implemented on July 1, 2021. If Aqua updates or changes the projected revenues in its filing for the July 1, 2021, rate change, which is due on April 30, 2021, the EMF calculations above should be revised to reflect the updated projected revenues.

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

PUBLIC STAFF
Christopher J. Ayers
Executive Director

Dianna W. Downey
Chief Counsel

Electronically submitted
/s/ William E. Grantmyre
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CERTIFICATE OF SERVICE

I, William E. Grantmyre, hereby certify that I served the foregoing Public Staff Report on the attorneys for Aqua North Carolina, Inc., Jo Anne Sanford and Robert H. Bennink, Jr., by electronic delivery upon agreement of the parties.

This the 30th day of April, 2021.

Electronically submitted
/s/ William E. Grantmyre