

SANFORD LAW OFFICE, PLLC

Jo Anne Sanford, Attorney at Law

December 1, 2023

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

Via Electronic Filing

Re: Carolina Water Service, Inc. of North Carolina
Docket No. W-100 Sub 67
Investigation Regarding Consolidation of Water and Wastewater
Utilities and the Utilization of Uniform Rates

Dear Ms. Dunston:

Carolina Water Service Inc. of North Carolina (“CWSNC” or “Company”), pursuant to the Order of the North Carolina Utilities Commission (“Commission” or “NCUC”) dated September 18, 2023 and updated on October 17, 2023, hereby files the materials which support its presentation to be made at the Commission’s Technical Conference, scheduled for December 6, 2023 at 1:00 p.m.

The presentation materials are Attachment A to this letter, and they identify and discuss briefly the broad range of facts and policy that bear on this topic. Attachment B is an excerpt from the Commission Order, with more specific responses to the Commission’s direct questions.

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

As always, thank you and your staff for your assistance; please feel free to contact me if there are any questions or suggestions.

Sincerely,

Electronically Submitted

/s/Jo Anne Sanford
Sanford Law Office, PLLC
State Bar No. 6831

Attorney for Carolina Water Service,
Inc. of North Carolina

c: Lucy Edmondson, Chief Counsel, Public Staff
Gina Holt, Manager, Legal Division, Natural Gas, Water, Sewer,
Telephone, & Transportation Sections, Public Staff
Charles Junis, Director, Water, Sewer & Telephone Division, Public
Staff



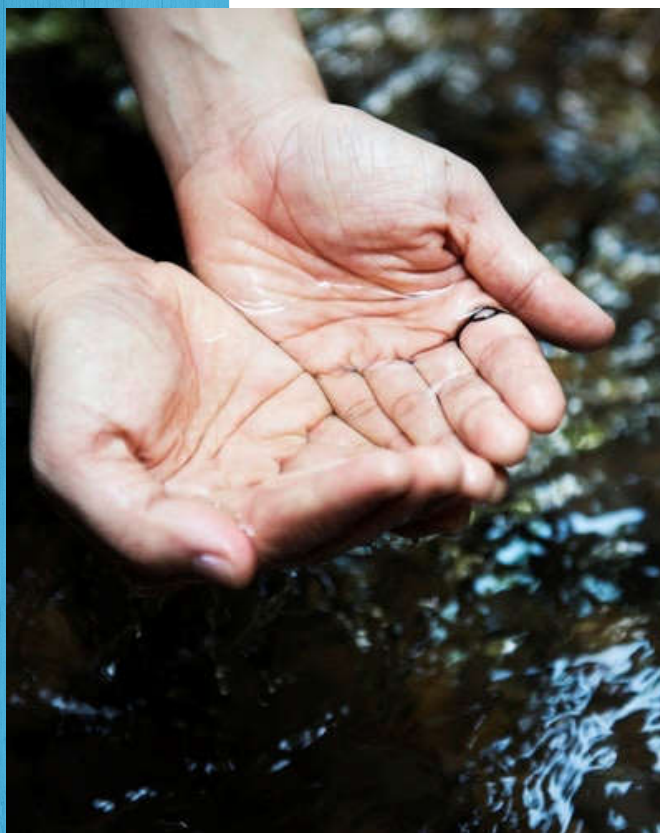
Carolina Water Service
of North Carolina™

Uniform Rates and Tariff Consolidation

Technical Conference before
the North Carolina Utilities
Commission

December 6, 2023





Agenda

1. Introductions and Opening Comments
(Sanford & Denton)
2. Company Overview ---
Rates Divisions (Denton)
3. Public Interest/Consolidation (Denton)
4. Path to Uniformity (Schellinger)
5. Transfer Proceedings (Schellinger)



Carolina Water Service
of North Carolina™



89k PEOPLE
SERVED



300+ WELLS



38 COUNTIES



85+ EMPLOYEES



35 WASTEWATER
TREATMENT PLANTS



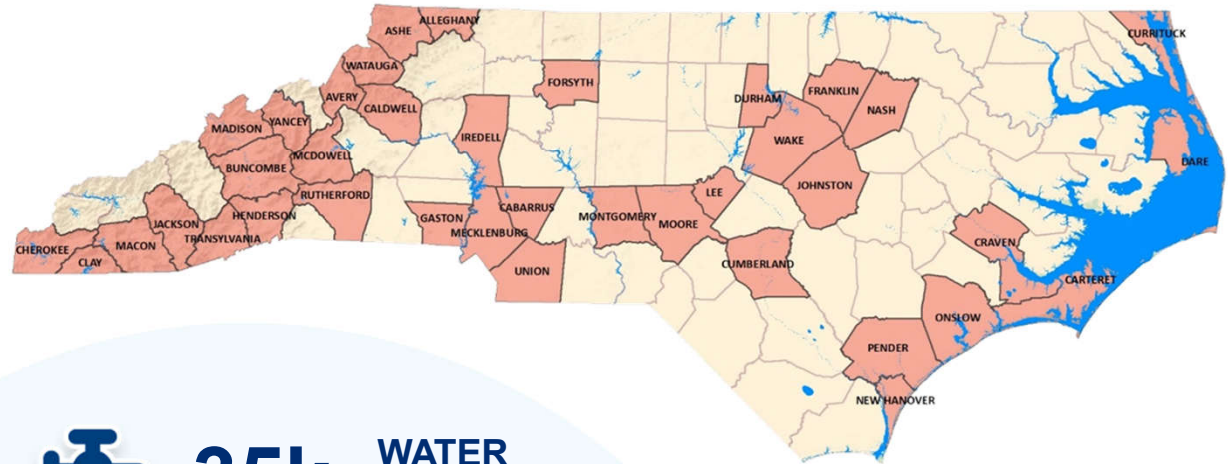
35k WATER
CONNECTIONS



22k WASTEWATER
CONNECTIONS



105 WATER SYSTEMS





Carolina Water Service
of North Carolina™

Rate Divisions

Current – Revenue Requirement Groups:

- Uniform Water – includes several different unique rates for pass through systems
- Uniform Sewer – includes several different unique rates for pass through systems
- Bradfield Farms / Fairfield Harbour / Treasure Cove Water
- Bradfield Farms / Fairfield Harbour Sewer

Pending:

- Echota Water (W-354 Sub 396)
- Seven Devils Sewer (W-354 Sub 396)
- North River / Mill Creek Water (Carteret County, W-354 Sub 399)
- Merrimon Water (Carteret County, W-354 Sub 399)
- Mountain Air Water (W-354 Sub 411)
- Mountain Air Sewer (W-354 Sub 411)

Echota, Seven Devils, and Mountain Air have geographic proximity and operational similarity to Uniform systems but are not included in the Uniform rate group.

Consolidation in North Carolina



- 90 water and wastewater utilities in NC regulated by the NCUC, many of which may have stale rates.
- Hundreds of municipal water and sewer systems in the State, many without scale, ability to regionally consolidate, or necessary expertise.

Potential Benefits:

- Safe, reliable, quality service by experienced staff.
- Greater access to capital.
- Greater capacity to offer customer assistance and efficiency programs.
- Opportunity for operating efficiencies and economies of scale.

Public Interest



- Uniform Rates continue to serve the public interest in North Carolina in the following ways:
 - Mitigation of future rate shock to customers when their system requires significant capital investment
 - Improves long-term affordability for customers
 - Lowers administrative costs for the utility and regulators
 - Incentivizes regionalization and acquisitions of troubled systems
 - Easier to justify capital investment in smaller systems
 - Improved service quality for smaller systems
 - Administratively easier (and less expensive) to incorporate acquired systems into a consolidated tariff group

Path to Uniformity



- Gradualism and Incrementalism

- In order to achieve uniform rates across all of our current rate divisions, an incremental and gradual process to change rates will need to be implemented that varies from a traditional stand-alone cost of service paradigm.
- Consolidating revenue requirements and enacting plans for rate parity over some set period of time would lead to regulatory certainty for acquirers. Additional benefits include reduced rate pressures for subsets of customers.
- Once rates are similar and rate shock can be managed, a consolidation into a uniform rate can be made.

Path to Uniformity



- Rate Shock

- Rate shock and rate gradualism should be balanced as a push towards uniform rates occurs.
- A number of systems in the State, including potential and recent acquisitions, have not had rate changes in a number of years.
- For the Company, the view is long-term with an understanding that it could take a number of years and a number of filings to get to a uniform rate construct for some systems, especially without concerted effort.
- The Company believes a clearly defined plan to get to uniform rates that is consistently applied and known generally ahead of time, especially as it relates to acquisitions, is ideal, without the need to pursue continuous incremental rate case applications for each stand-alone/small tariffed group.

Transfer Proceedings



- Acquisition of Existing Utilities

- The availability of a Water and Sewer Investment Plan (WSIP) ratemaking mechanism should not deter the Commission from including acquisitions at the Uniform Rates applicable through the WSIP rate years.
- Customers are more protected from the Company entering into an over-earning situation than ever before with the WSIP's ROE banding.
 - Including acquisitions in a current rate plan, and at uniform rates, would go directly into the reporting and calculations for earnings tests and afford related customer protections.
 - The need to file incremental rate cases for entities acquired within a WSIP period would be largely mitigated.
 - Inclusion of acquired entities in a follow-on WSIP or consolidated case would be seamless.

Transfer Proceedings



- Traditional Cost of Service
 - Recent transfer proceedings have been very time intensive and expensive.
 - Potential disputes on recovery in rates for upcoming capital, knowing that it may lead to stand-alone (and more costly) filings in the near term.
 - Not a consideration for Emergency Operator situations: once a system is distressed it is generally acknowledged that capital is needed, and rates need to be changed.
 - Waiting for a system to become distressed and fall into Emergency Operator status in order to bypass a full cost of service model is counter-productive and administratively inefficient.

Transfer Proceedings



- Cost of Service Analysis

- Below Uniform Rates:

- Full cost of service analysis in a transfer proceeding delays the timeline for Uniform Rates/Rate Parity and introduces additional administratively burdensome rate filings in order to reach uniformity.
 - Absent a push towards Uniform Rates it would be harder to justify capital investment in very low rate systems.
 - If large investment is needed prior to moving toward Uniform Rates, these acquired systems would provide no rate benefit to the existing Uniform Rate group in the interim, and would only drive rates up when investment eventually drives rate consolidation.
 - Benefits to customers of a large and well-capitalized acquiring utility are clear, and could justify eschewing stand-alone cost of service basis for rates, especially when future capital needs are imminent.

Transfer Proceedings



- Cost of Service Analysis

- Above Uniform Rates:

- Many systems with a cost of service above the current uniform rate level may not need large capital investment, may have room for operational savings, and/or are in relatively good condition.
 - Significant total cost sharing savings could occur by having a larger customer base on which to spread fixed costs of the combined utility.
 - Beyond a larger base to spread fixed costs, as the assets depreciate and investment remains on the horizon, the acquired system would otherwise move towards parity with the Uniform Rate group.
 - A staggering of utility asset investment, spread across a large customer base, provides protections against large rate increases.

Certificates of Public Convenience and Necessity



Carolina Water Service
of North Carolina™

- New CPCN applications for service areas that do not currently receive service should be included at the Uniform Rates and included within the WSIP.
 - No customer base is penalized by this decision:
 - New customers are able to enter the service territory knowing what their rates will be, and enjoy the benefits of immediate consolidation.
 - Current customers are protected by ROE banding, and low-cost growth reduces future rate increases for all.



Questions?

Docket No. W-100, Sub 67**In the Matter of Investigation Regarding Consolidation of Water and Wastewater Utilities and the Utilization of Uniform Rates****Response of Carolina Water Service, Inc. of North Carolina****Background**

In its Order of September 18, 2023, the Commission specifically directed the Public Staff, Aqua, and CWSNC to address a series of questions. The filed presentation (*Attachment A*) provides context for CWSNC's position on these issues, and the following provides succinct responses. Elaboration is required to delve into the full explanation of the positions, and the Company is available for additional conversations as the Commission deems useful.

Questions

1. Whether the uniform rate paradigm continues to serve the public interest in North Carolina.

Response: The expanded use of uniform rates as a “default” for rate-setting upon acquisition better serves the public interest than does a default to stand-alone rates.

2. ...and...Whether the path to uniformity should or must change in light of the challenges faced by the water and wastewater utilities in North Carolina, including consideration of:

a. Whether the availability of the Water and Sewer Investment Plan (WSIP) ratemaking mechanism, N.C.G.S., § 62-133.1B, affects the analysis of whether uniform rates or stand-alone rates are appropriate at the time of approval of a request to transfer a utility franchise;

Response: The Company believes that the path to uniformity of rates should accelerate, should be made clearer, and should include more reliance on default or “base” principles, which can be modified to meet individual

circumstances (avoidance of rate shock, for example). Such a policy shift will facilitate acquisitions of distressed systems and will help produce the consolidation that is generally deemed to be beneficial to stakeholders.

The availability of a Water and Sewer Investment Plan (WSIP) ratemaking mechanism should not deter the Commission from including acquisitions at the Uniform Rates applicable through the WSIP rate years.

b. How rate shock and rate gradualism should be balanced during any migration to uniform rates in a rate case proceeding or WSIP for systems acquired since the last rate case proceeding or WSIP;

Response: Gradualism, as a counter to rate shock, should continue to be employed as a rate-making tool. The application of a policy of gradualism will vary by the factual circumstance presented in the case, including, for example, the length of time since the last rate case and the level of rates. Regardless of the gradualism considerations, it should be made clear up front that the goal continues to be eventual consolidation, and a path to achieve that goal should be outlined.

c. Whether, and under what circumstances, the commitment of resources, both utility and Public Staff/Commission, to reviewing and maintaining a stand-alone rate paradigm for regulatory treatment is justified;

Response: Under most circumstances, the commitment of resources to continue to support a stand-alone rate paradigm for regulatory treatment, as a primary policy goal, is no longer justified. Greater efficiencies and benefits, to customers and the processes involved, are achievable via a default to uniform rates as a primary goal. The potential for these benefits only increases as more acquisitions and consolidations occur over time.

d. Whether, and under what circumstances, the justification for uniform rates in a transfer proceeding should deviate from a traditional historical cost-of-service analysis;

Response: CWSNC contends that the justification for uniform rates in a transfer proceeding should be initially presumed, and that adjustments in rates should be made, as deemed necessary, to account for significant factors such as, for example, avoidance of rate shock. Leveraging cost-of service analysis akin to a rate case's revenue requirement setting process should be reserved for rate case proceedings.

e. Whether and how those situations where a system to be acquired has rates that do not fully reflect the cost to provide utility service impact the consideration of whether a uniform rate paradigm is appropriate;

Response: The existence of rates that do not reflect the cost of service is one of many rationales for application of uniform rates,¹ inasmuch as the benefits of consolidation, efficiency, fairness, and equality among rates are all better achieved by eliminating the rate disparities across the Company.

f. Whether, and under what circumstances, stepped-in rate increases to the acquiring utility's uniform rates should be considered when uniform rates are not supported by the historical cost-of-service analysis at the time of transfer, including:

i. Whether the Commission is authorized to consider planned capital improvements over the stepped-in rate period under N.C.G.S. § 62-133; and

ii. If so, whether the acquiring utility should be required to provide supporting documentation to the Public Staff and Commission of in-service dates prior to stepping up the rates to the next level; and

g. Whether and how the existing stand-alone rate divisions currently in place for Aqua, CWSNC, and any other intervenor would eventually be consolidated into one unified rate structure.

¹ Or for a plan to move as quickly as possible to uniform rates, subject to whatever the application of a reasoned policy of "gradualism" would require.

Response: As stated, CWSNC believes that the default rate consequence for an acquired system should be uniform rates. Recognizing that this result would take time and understanding a policy of gradualism to ensure fairness to customers by avoidance of rate shock, or by a disproportionate loading of costs onto the general body of ratepayers from an “excessive” level of costs imposed by certain systems, the use of a “step-up,” gradual mechanism is sensible and appropriate. With respect to the existing stand-alone rate divisions, CWSNC recommends that a plan be proposed---prior to the next rate case---which establishes movement of rates for those divisions into the uniform category.

Conclusions

CWSNC favors consideration of all reasonable efforts to make the acquisition, consolidation, and uniform rates processes more efficient, consistent with balanced benefits to all stakeholders.