

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. W-354, SUBS 356A and 360

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of Application by Carolina Water Service, Inc. of North Carolina, 4944 Parkway Plaza Boulevard, Suite 375, Charlotte, North Carolina 28217, for Authority to Implement Water and Sewer System Improvement Surcharge Rate Adjustments Pursuant to G.S. 62-133.12) NOTICE OF PUBLIC STAFF'S) PLAN TO PRESENT) COMMENTS AND) RECOMMENDATIONS AT THE) COMMISSION'S APRIL 15, 2019,) REGULAR STAFF) CONFERENCE
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NOW COMES THE PUBLIC STAFF – North Carolina Utilities Commission by and through its Acting Director, David Drooz¹, and notifies the Commission and Carolina Water Service, Inc. of North Carolina (CWSNC or Company) that the Public Staff plans to present its comments and recommendations regarding CWSNC's January 31, 2019, Application for Authority to Implement Water and Sewer System Improvement Surcharge pursuant to N.C. Gen. Stat. § 62-133.12 (Application), for Commission consideration at the Commission's April, 15, 2019, Regular Staff Conference.

This Notice is being provided pursuant to Commission Rules R7-39(f) and R10-26(f).

¹ Prior to assuming the position of the Executive Director of the Public Staff, Christopher J. Ayers represented Carolina Water Service, Inc. of North Carolina, Pluris, LLC, and a number of other water and sewer utilities in various proceedings before the Commission. In order to avoid any conflict of interest or the appearance of a conflict of interest, Mr. Ayers has recused himself from participation in this matter and has designated the Public Staff Chief Counsel to serve as Acting Executive Director of the Public Staff for purposes of this docket.

The Company requested that the Commission approve the filed Water System Improvement Charges (WSIC) and Sewer System Improvement Charges (SSIC) effective April 1, 2019. On March 6, 2019, CWSNC filed a revised Appendix A to the Application to include updated financial data reflected in the Order issued by the Commission in CWSNC's recent general rate case, Docket No. W-354, Sub 360 (Sub 360 Rate Case).

CWSNC's Application includes WSIC and SSIC projects completed and placed in service from July 1, 2018 through December 31, 2018. These projects consist of the following:

T&D mains	\$243,130
Service lines	396,757
Meters	27,817
Meter installations	3,900
Hydrants	<u>11,247</u>
Total WSIC plant additions	<u>\$682,851</u>
Sewer force main	\$7,763
Sewer gravity main	175,472
Services to customers	64,838
Pumping equipment pump	90,984
Treat/Disp. equip. trt. pl.	<u>47,715</u>
Total SSIC plant additions	<u>\$386,772</u>

CWSNC's proposed WSIC and SSIC percentages to be implemented on April 1, 2019, are as follows:

	<u>WSIC/SSIC Revenue Requirement</u>	<u>Projected Service Revenues</u>	<u>WSIC/SSIC Percentage</u>
Uniform Water	\$68,080	\$17,421,887	0.39%
Uniform Sewer	48,606	11,815,536	0.41%
BF/FH/TC Water	5,152	1,316,712	0.39%
BF/FH/TC Sewer	2,440	2,149,100	0.11%

In its Application, CWSNC seeks authority to implement the following net incremental change to its existing WSIC and SSIC Experience Modification Factor (EMF) adjustments from the 2018 annual WSIC and SSIC revenue review:

	<u>Previously Approved EMF Percentage</u>	<u>Updated WSIC/SSIC Percentage</u>	<u>Cumulative WSIC/SSIC Percentage</u>
Uniform Water	(0.05%)	0.39%	0.34%
Uniform Sewer	0.02%	0.41%	0.43%
BF/FH/TC Water	0.00%	0.39%	0.39%
BF/TC Sewer	0.00%	0.11%	0.11%
FH Sewer	(0.07%)	0.11%	0.04%

As stated by the Commission in its Order adopting Rules R7-39 and R10-26 issued on June 6, 2014, in Docket No. W-100, Sub 54, the Public Staff is to review all infrastructure improvements proposed for recovery for eligibility and reasonableness prior to making its recommendation to the Commission on WSIC or SSIC rate adjustments. Furthermore, any WSIC or SSIC rate adjustments will be allowed to become effective, but not unconditionally approved. The adjustments may be rescinded retroactively in the Company's subsequent general rate case, at which time the adjustment may be further examined for a determination of its justness and reasonableness.

The Public Staff has carefully reviewed CWSNC's stated WSIC and SSIC improvements, including, reviewing in detail, construction work in progress ledgers and transactions, invoices, work orders, construction budgets, and other accounting records. Based on this review, the Public Staff has identified the following adjustments to CWSNC's WSIC and SSIC percentages at this time:

- 1) Adjust projected revenues for Uniform Sewer operation to include Monterey Shores and Corolla Light revenues
- 2) Remove non-eligible water and sewer system improvement projects

Adjust Projected Uniform Sewer Revenues - CWSNC removed projected service revenues for the Corolla Light and Monterey Shores sewer systems from total projected services revenues for Uniform Sewer operations to determine the updated Uniform Sewer SSIC percentage. The Public Staff is of the opinion that Corolla Light and Monterey Shores projected service revenues should be included in the calculation of the Uniform Sewer SSIC percentage and that the annual Uniform Sewer SSIC revenue requirement also be recovered from customers in these subdivisions. Corolla Light's and Monterey Shores' rate base and operating expenses were used in determining the revenue requirement for Uniform Sewer operations in the recent Sub 360 Rate Case, which are being used as projected revenues in calculating the Uniform Sewer SSIC percentage in this proceeding. Because the Uniform Sewer revenue requirement resulted from rate base and operating expenses attributable to Corolla Light and Monterey Shores in the Sub 360 rate case, the SSIC revenue requirement should be recovered from all Uniform Sewer customers, including customers in the Corolla Light and Monterey Shores

service areas. With the addition of the projected service revenues for Corolla Light and Monterey Shores, the cumulative Uniform Sewer SSIC percentage decreases from 0.43% to 0.39%.

Remove Non-Eligible Water and Sewer System Improvement Projects - After carefully reviewing invoices provided by the Company in response to our data request, the Public Staff has concluded that none of the water system improvement projects included in the Company's Application are eligible system improvement projects subject to WSIC recovery. Additionally, in the Public Staff's opinion, only \$117,965 of the \$386,772 in sewer system improvement projects included in the Application are eligible system improvements that can be recovered through the SSIC mechanism. Our examination of the invoices revealed that the non-eligible WSIC and SSIC projects were not system improvement projects, but were routine maintenance and repairs or a single service connection to CWSNC's water and sewer systems which are not water and sewer system improvements as defined in N.C. Gen. Stat. § 62-133.12(b), (c) and (d).

Based on the adjustments above, the Public Staff recommends the following adjustments to the WSIC and SSIC percentages proposed by CWSNC:

	WSIC/SSIC Percentages Per CWSNC	WSIC/SSIC Revenue Requirement Per Public Staff	Impact of Public Staff Adjustments	WSIC/SSIC Percentage Per Public Staff
Uniform Water	0.34%	\$ 0.00	(0.39%)	(0.05%)
Uniform Sewer	0.43%	12,545	(0.31%)	0.12%
BF/FH/TC Water	0.39%	0.00	(0.39%)	0.00%
BF/TC Sewer	0.11%	0.00	(0.11%)	0.00%
FH Sewer	0.04%	0.00	(0.11%)	(0.07%)

The Public Staff has discussed its recommended adjustments with CWSNC and the Company wishes to proceed with the uncontested amounts as presented and calculated by the Public Staff. CWSNC asserts that there are significant differences with the Public Staff regarding the Company's differing interpretation and application of the WSIC/SSIC statute that are not reasonably resolvable in the context of this Application, but which the Company seeks to resolve in the near future with the Public Staff and, as necessary, the Commission. CWSNC asserts that the Company's agreement to go forward with only the uncontested amounts in this case does not, and should not be interpreted to, indicate concession as to the eligibility for recovery of the other contested WSIC/SSIC investments. The Public Staff plans on recommending at the April 15, 2019, Regular Staff Conference that CWSNC be allowed to implement the Public Staff's adjusted WSIC and SSIC percentages, effective for service rendered on or after April 15, 2019, subject to true-up.

Respectfully submitted this the 29th day of March, 2019

PUBLIC STAFF
David Drooz
Acting Executive Director

Electronically submitted
/s/ Gina C. Holt
Staff Attorney

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CERTIFICATE OF SERVICE

I, Gina C. Holt, hereby certify that I served the foregoing Notice of Public Staff's Plan to Present Comments and Recommendations at the Commission's April 15, 2019, Regular Staff Conference, on all Parties of record by electronic delivery upon agreement of the parties.

This the 29th day of March, 2019.

Electronically submitted
/s/ Gina C. Holt