



May 11, 2023

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

Via Electronic Delivery

Re: W-218, Sub 592
The Sanctuary at Lake Wheeler
Water
Wake County

Dear Ms. Dunston:

Please see response letter and attachments to the Public Staff Deficiency Letter in regard to Docket No. @-218, Sub 592.

If you have any questions, please contact me at 919-653-6963 or bdbrantley@aquaamerica.com.

Sincerely,

A handwritten signature in cursive script that reads "Barbara Brantley".

Barbara Brantley
New Business Coordinator

OFFICIAL COPY

May 11 2023



May 11, 2023

VIA ELECTRONIC MAIL

Ms. Reita D. Coxton
Staff Attorney
Public Staff- N.C. Utilities Commission
430 N. Salisbury Street, Suite 5060
4326 Mail Service Center
Raleigh, NC 27699-4326

Re: Docket No. W-218, Sub 592 – Application by Aqua North Carolina, Inc., for a Certificate of Public Convenience and Necessity and for Approval of Rates for The Sanctuary at Lake Wheeler

Dear Ms. Coxton:

Aqua received the notice of deficiency from the NC Utilities Commission Public Staff dated May 10, 2023. We would like to provide the following information as a response to each of the items noted in the letter of deficiency.

1. **Item 1:** A copy of Aqua's most recent fiscal year financial statements

RESPONSE: Please see the most recent fiscal year financial statements from Aqua North Carolina, Inc.

2. **Item 2:** A copy of Aqua's parent company most recent fiscal year financial statements

RESPONSE: Please see a copy of Essential Utilities most recent fiscal year financial statements.

3. **Item 3:** Page two of the Certificate of Public Convenience and Necessity was excluded.

RESPONSE: Please see attached and filed in Docket W-218, Sub 592 page 2 of the application for the CPCN and for Approval of Rates for The Sanctuary at Lake Wheeler.

Ms. Rita D. Coxton
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May 11, 2023

If you have any questions, please do not hesitate to contact me at the email address listed below. Additionally, you are welcome to contact Barbara Brantley at (919) 653-6963 or bdbrantley@aquaamerica.com with questions related to the application.

Sincerely,

Electronically submitted
/s/ C. Ruffin Poole
Director of Development & Regulatory Affairs
crpoole@aquaamerica.com

Attachments:

- Aqua North Carolina, Inc. Consolidated Financial Statements
- Essential Utilities Financial Statement
- Page 2 of the CPCN application in Docket W-218, Sub 592

cc: David Drooz

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May 11 2023

PROPOSED BILLING

1. Frequency of billing shall be (monthly, quarterly, etc.) Monthly
2. Billing shall be for service (in advance or arrears) Arrears
3. Bills past due 15 days after the billing dates :
(NCUC Rule R12-9 specifies that bills shall not be past due less than fifteen (15) days after billing date).
4. Will regular billing be by written statement ? (yes or no) Yes
5. Will the billing statement contain the following ? (yes or no)
 - (a) Meter reading at beginning and end of billing period Yes
 - (b) Date of meter readings Yes
 - (c) Gallons used, based on meter readings Yes
 - (d) Amount due for current billing period listed as a separate amount Yes
 - (e) Amount due from previous billing period listed as a separate amount Yes
 - (f) Amount due for each special charge (i.e., deposits, tap fees, etc.) listed as a separate amount (yes or no) Yes
6. Show how the following will appear on the billing statement:
 - (a) Mailing address of company: 202 MacKenan Court
Cary, N. C. 27511
 - (b) Address where bill can be paid in person: N/A
 - (c) Name and phone of alternative persons to contact for emergency service after business hours: (877) 987-2782
7. Is service already metered? (yes or no) Yes
8. Does the Applicant understand the provisions for establishing credit and collecting customer deposits set forth in NCUC Rules and Regulations, Chapter 12?
(Customer deposits must be refunded to customer having not more than two (2) bills overdue during a 12-month period and who are not then delinquent on the payment of their bills per NCUC Rule R12-5. Yes

PRESENT RATES

9. Are you presently charging for service? If so, describe the rates being charged
No
10. How long have these rates been in effect? N/A

PERSONS TO CONTACT

	NAME	ADDRESS	TELEPHONE
11. General Manager	Joe Pearce	202 MacKenan Court	919-467-8712
12. Complaints or Billing	Customer Service	202 MacKenan Court	919-467-8712
13. Engineering Operations	Joe Pearce	202 MacKenan Court	919-467-8712
14. Emergency Service	Rob Krueger	202 MacKenan Court	919-467-8712
15. Accounting	Dean Gearhart	202 MacKenan Court	919-467-8712

16. Are the names and phone numbers shown above listed in the phone book by each of the proposed service areas? (yes or no) Yes
17. Can customers make phone calls for service without being charged for long distance phone call? (yes or no) Yes
18. Do persons designated to receive phone calls for emergency service after regular business hours have authority to provide the needed repairs without first contacting owner? (yes or no) Yes
19. List the qualifications of the person in charge of the utility system:
On file with commission
20. List the date(s) and describe any DEHNR violation(s) since the last application for franchise, transfer, or rate increase: None

The Sanctuary @ Lake Wheeler - Aqua North Carolina, Inc. (ANC Water - Cary Region)
 ADDENDUM TO APPLICATION FOR CERTIFICATE OF PUBLIC CONVENIENCE & NECESSITY AND FOR APPROVAL OF RATES

Projected Income Statement

Line No.	Item	Year 1	Year 2	Year 3	Year 4	Year 5
<u>Operating Revenue</u>						
1	Metered service revenue	\$7,839	\$13,266	\$18,090	\$22,311	\$25,929
2	Flat rate service revenue	\$0	\$0	\$0	\$0	\$0
3	EPA testing surcharge	\$0	\$0	\$0	\$0	\$0
4	Re-connect fees	\$0	\$0	\$0	\$0	\$0
5	Return check charge	\$0	\$0	\$0	\$0	\$0
6	Late payment charges	\$13	\$23	\$31	\$38	\$45
7	Other operating revenue	\$118	\$199	\$271	\$335	\$389
8	Total operating revenue (Sum of Line 1 thru Line 7)	\$7,970	\$13,488	\$18,392	\$22,684	\$26,362
<u>Operating Expenses</u>						
9	Total salaries and wages (employees only)	\$1,430	\$2,419	\$3,299	\$4,069	\$4,728
10	Outside labor expense (non-employees)	\$521	\$882	\$1,203	\$1,484	\$1,724
11	Administrative and office expense	\$43	\$72	\$98	\$121	\$141
12	Maintenance and repair expense	\$77	\$130	\$178	\$219	\$255
13	Purchased Water	\$0	\$0	\$0	\$0	\$0
14	Purchased sewage treatment	\$0	\$0	\$0	\$0	\$0
15	Electric power expense (exclude office)	\$482	\$815	\$1,112	\$1,371	\$1,594
16	Chemicals expense	\$94	\$159	\$216	\$267	\$310
17	Testing fees	\$139	\$235	\$320	\$394	\$458
18	Transportation expense	\$180	\$305	\$415	\$512	\$595
19	Other operating expenses	\$761	\$1,288	\$1,756	\$2,166	\$2,517
20	Total operation and maintenance expenses (Sum of Lines 9 thru 19)	\$3,725	\$6,304	\$8,597	\$10,603	\$12,322
21	Annual depreciation expense	\$1,441	\$1,217	\$1,257	\$1,281	\$1,288
22	Property taxes paid on utility property	\$109	\$184	\$251	\$309	\$359
23	Payroll taxes	\$100	\$170	\$232	\$286	\$332
24	Franchise (gross receipts) tax	\$0	\$0	\$0	\$0	\$0
25	Annual NCUC regulatory fee	\$11	\$26	\$37	\$0	\$0
26	Total operating expenses (Sum of Line 20 thru Line 25)	\$5,387	\$7,901	\$10,374	\$12,479	\$14,302
<u>Income taxes</u>						
27	State income taxes	\$65	\$140	\$200	\$255	\$301
28	Federal income taxes	\$529	\$1,144	\$1,642	\$2,089	\$2,469
29	Total income taxes (Line 27 + Line 28)	\$594	\$1,284	\$1,842	\$2,344	\$2,770
30	Net operating income (loss) (Line 8 - Line 26 - Line 29)	\$1,989	\$4,303	\$6,176	\$7,861	\$9,290
31	Interest expense	\$0	\$0	\$0	\$0	\$0
32	Net income (loss) (Line 30 - Line 31)	\$1,989	\$4,303	\$6,176	\$7,861	\$9,290

All amounts are estimated. Certain average cost per customer information was derived from Aqua North Carolina Inc.'s last rate case (Docket No. W-218, Sub 526, final order dated 10/26/20.

For purposes of this projection no allowances have been made for inflation.

Number of customers (row 52)	13	22	30	37	43
	30%	20%	20%	15%	15%

W-218 Sub 592

The Sanctuary @ Lake Wheeler - Aqua North Carolina, Inc. (ANC Water - Cary Region)
ADDENDUM TO APPLICATION FOR CERTIFICATE OF PUBLIC CONVENIENCE & NECESSITY AND FOR APPROVAL OF RATES

Statement of Cash Flows

Line No.	Item	Year 1	Year 2	Year 3	Year 4	Year 5
<u>Cash Flows From Operating Activities</u>						
1	Pre-tax operating income (loss) :					
2	Total operating revenue	\$7,970	\$13,488	\$18,392	\$22,684	\$26,362
3	Less : Operation and maintenance expenses	\$3,725	\$6,304	\$8,597	\$10,603	\$12,322
4	Less : Taxes other than income	\$220	\$380	\$519	\$595	\$692
5	Pre-tax operating income (loss)	\$4,024	\$6,804	\$9,276	\$11,486	\$13,348
6	Income tax calculation :					
7	Pre-tax operating income (loss)	\$4,024	\$6,804	\$9,276	\$11,486	\$13,348
8	Plus : Contribution in aid of construction (Meter fees, Tap fees)	\$910	\$630	\$560	\$490	\$420
9	Less : Tax depreciation	\$1,258	\$2,130	\$2,904	\$3,582	\$4,162
10	Less : Interest expense	\$0	\$0	\$0	\$0	\$0
11	Taxable income (loss)	\$3,676	\$5,304	\$6,932	\$8,394	\$9,606
12	State income tax	\$92	\$133	\$173	\$210	\$240
13	Federal income tax	\$753	\$1,086	\$1,419	\$1,719	\$1,967
14	Total income taxes to be paid	\$845	\$1,219	\$1,592	\$1,929	\$2,207
15	Net cash provided by (used in) operating activities	\$3,179	\$5,585	\$7,684	\$9,557	\$11,141
<u>Cash Flows From Investing Activities</u>						
16	Purchases of utility plant	\$329,860	\$21,780	\$19,360	\$16,940	\$14,520
17	Plus : Cash bonds posted	\$0	\$0	\$0	\$0	\$0
18	Less : Contributions in aid of construction	\$299,310	\$630	\$560	\$490	\$420
19	Less : Proceeds from disposal of utility plant	\$0	\$0	\$0	\$0	\$0
20	Net cash used (provided) by investing activities	\$30,550	\$21,150	\$18,800	\$16,450	\$14,100
<u>Cash Flows From Financing Activities</u>						
21	Proceeds from issuing short term debt	\$0	\$0	\$0	\$0	\$0
22	Less : Principal repayment of short term debt	\$0	\$0	\$0	\$0	\$0
23	Plus : Proceeds from issuing long term debt	\$0	\$0	\$0	\$0	\$0
24	Less : Principal repayment of long term debt	\$0	\$0	\$0	\$0	\$0
25	Less : Interest payment for short and long term debt	\$0	\$0	\$0	\$0	\$0
26	Plus : Proceeds from issuing stock	\$0	\$0	\$0	\$0	\$0
27	Less : Dividends paid	\$0	\$0	\$0	\$0	\$0
28	Plus : Funds provided by company	\$30,550	\$0	\$0	\$0	\$0
29	Net cash provided (used) by financing activities	\$30,550	\$0	\$0	\$0	\$0
30	Net increase (decrease) in cash	\$3,179	(\$15,565)	(\$11,116)	(\$6,893)	(\$2,959)
31	Cash balance at beginning of year	\$0	\$3,179	(\$12,386)	(\$23,502)	(\$30,395)
32	Cash balance at end of year	\$3,179	(\$12,386)	(\$23,502)	(\$30,395)	(\$33,354)

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Summary of Assumptions

- 1) Most calculations are based on an average cost per customer for Aqua North Carolina, Inc. North Carolina Water per the audited expenses and REU's in the NCUC Final Order dated 10/26/20 for the 3/31/20 test year. These are the amounts being used when referring to the average cost per customer in the following assumptions.
- 2) All line items with \$0 amounts were not applicable for this franchise.
- 3) We expect this system to build out at 43 customers. The average number of customers used for years 1-5 are expected to be 13, 22, 30, 37 and 43 respectively.
- 4) For the Projected Income Statement the following line items are based upon the average cost per customer multiplied by the number of customers projected for this extension each year :
Lines 1, 4-7, 9-12, 15-16, 18-19 and 22-23.
- 5) I/S Line 17 - Testing fees are made up of two components. Using tests that are related to a system we calculated an average annual cost per system. Using tests that are related to the number of entry points we calculated an average annual cost per entry point for a one well system. We added these two amounts together to come up with an annual cost per system for a one well system.
- 6) I/S Line 21- In order to calculate annual depreciation expense we used our initial cost investment and any other plant items paid for by Aqua North Carolina. For purposes of this projection we used a composite depreciation rate. However, when the extension is recorded in the asset accounts Heater will use account specific depreciation rates. For the allocated amount of depreciation expense we calculated the average cost per customer using the general plant allocations and the REU's per 10/26/20 rate case.
- 7) I/S Line 24 - The franchise tax calculation is based on the same formula used in rate proceedings at the 0%.
- 8) I/S Line 25 - The annual NCUC regulatory fee is a calculation based on the same formula used in rate proceedings at the .135%. The rate has since changed to .13% as of 7/1/19. Updated to .14% effective 7/1/2022.

9) I/S Line 27, C/F Line 12 - The state income taxes are a formula based on the income tax rates for 2014 which is 5.0%. The state tax rate has since changed to 4.0%. The state tax rate has changed to 3% effective 1/1/17. Effective 1/1/19, state tax is 2.5%.

10) I/S Line 28, C/F Line 13 - The federal income taxes are a formula based on the 35% federal income tax rate. Federal income tax rate changed to 21% effective 1/1/18.

11) C/F Lines 8, Line 19 - CIAC is per the agreement between Aqua North Carolina, Inc and the developer. Meter fees / tap fees are based upon the estimated number of customers connected to the extension each year.

12) C/F Line 9 - The tax depreciation is based on the IRS straight - line depreciation rates for 25 year utility property applied to Aqua's estimated total cost plant per the contract with the developer and applied to the estimated meter fees / tap fees.

13) C/F Line 17 - For the purchases of utility plant we used the estimated amount of total plant per the contract with the developer and year 1 initial cost investment. Meter fees / tap fees are based upon the estimated number of customers connected to the extension the first year.

14) C/F Line 18 - Cash bonds posted are not required as Aqua has an approved corporate surety bond to satisfy NCUC bonding requirements.

15) C/F Line 29 - Funds provided by company is the estimated amount needed to purchase this extension.

16) The initial cost investment does not include internal costs including due diligence related to acquiring the extension.

AQUA NORTH CAROLINA, INC.

VIABILITY STATEMENT

Aqua North Carolina, Inc. provides sewer service to approximately 17,360 customers and water service to approximately 63,727 customers in North Carolina. In Aqua's last general rate case, Docket Number W-218, Sub5267, the North Carolina Utilities Commission (NCUC) determined that 9.40% was a reasonable return on equity for Aqua's North Carolina operations for the test year ended March 31, 2020. The 9.40% return on equity produced total annual operation revenues of \$39,190,819 for water and \$16,457,554 for sewer. The total rate based allowed was \$135,909,810 for water and \$60,371,609 for sewer of which 50% or 98,140,710 was equity funded.

Aqua North Carolina, Inc. has a corporate surety bond in the amount of \$13.0 million which was approved by the Commission which was approved by the Commission in August 2017 to satisfy NCUC bonding requirements.