

All Documents Submitted As Part of Aqua's Application for General Rate Increase Filed on December 31, 2019, Including All NCUC Form 1 Items, Both Confidential and Non-confidential, were admitted in the record and can be found on their original filing date, as they are too large to upload as one file. ktm

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SANFORD LAW OFFICE, PLLC
Jo Anne Sanford, Attorney at Law

December 31, 2019

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

Via Electronic Delivery

Re: Application of Aqua North Carolina, Inc. for Adjustment of Rates and Charges, Approval of a Conservation Pilot Program, Deferral Accounting, and Modifications to Certain Terms and Conditions for the Provision of Water and Sewer Utility Service
Docket No. W-218, Sub 526

Dear Ms. Campbell:

Aqua North Carolina, Inc. ("Aqua" or "Company") submits for electronic filing in the above-referenced docket its general rate case application, along with electronic payment of the filing fee of \$500.00, which is required for a Class A water and sewer company.

Additionally, within one business day, as required by Commission Rule R1-28(e)(1), Aqua will file fifteen (15) paper copies of the Application and fifteen (15) paper copies of the NCUC Form W-1.

All confidential documents will be marked "CONFIDENTIAL." Paper copies of confidential documents will be sealed in a separate envelope for filing. For purposes of the electronic public filings, the confidential materials are redacted. Unredacted versions will be electronically filed using the "confidential" filing function in the Commission's docket portal.

Aqua's filing in this case is based on a test year of the twelve months ended September 30, 2019, updated for anticipated changes in the Company's cost of service, including rate base. The Company reserves the right to further update its cost of service, consistent with North Carolina law, up through the close of the evidentiary hearing in this matter, and has appropriately designated certain post-test year changes and additions in the Application.

Unless suspended by the Commission, Aqua's new rates are proposed to become effective for service rendered on and after Sunday, January 30, 2020.

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

State Bar No. 6831

Attorney for Aqua North Carolina, Inc.

c: David Drooz, Chief Counsel, Public Staff
Megan Jost, Staff Attorney, Public Staff
Zeke Creech, Staff Attorney, Public Staff
David Furr, Director, Water and Communications Division, Public Staff
Windley C. Henry, Water and Communications Manager, Public Staff

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. W-218, SUB 526

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of
Application by Aqua North Carolina, Inc.,)
202 MacKenan Court, Cary, N.C. 27511,)
for Authority to Adjust and Increase)
Rates for Water and Sewer Utility)
Service in All Service Areas in North)
Carolina)
)

**APPLICATION FOR
A GENERAL INCREASE
IN RATES**

NOW COMES Aqua North Carolina, Inc. ("Aqua" or "Company"), pursuant to the provisions of G.S. 62-130 *et seq.* and North Carolina Utilities Commission ("Commission" or "NCUC") Rules R1-15 and R1-17, and respectfully requests that the Commission approve the Company's Application to increase rates for all its North Carolina service territories, effective Thursday, January 30, 2020.

In support of this Application for a general rate increase, the Company states the following:

A. DESCRIPTION OF COMPANY, SCOPE OF SERVICE, AND OPERATIONS

1. Aqua is a public utility operating in North Carolina engaged in the provision of water and sewer utility service to the public for compensation. The Company's business address is 202 MacKenan Court, Cary, North Carolina 27511.
2. The correct contact information for Aqua is:

Shannon V. Becker, President
Aqua North Carolina, Inc.
202 MacKenan Court
Cary, North Carolina 27511
Telephone: 919.653.5770

3. The attorney for Aqua, on whom all pleadings and notices should be served, is:

Jo Anne Sanford
Sanford Law Office, PLLC
Post Office Box 28085
Raleigh, North Carolina 27611-8085
Telephone: 919-210-4900
sanford@sanfordlawoffice.com

4. Aqua is a wholly-owned subsidiary of Aqua America, Inc. ("Aqua America") of Bryn Mawr, Pennsylvania, and is one of eight state subsidiaries owned and operated by Aqua America. It is an investor-owned public utility pursuant to G.S. 62-3, does business as a regulated water and sewer utility in North Carolina, and is subject to the regulatory oversight of this Commission. The Company presently serves approximately 82,000 water customers and 20,000 sewer customers in North Carolina and operates more than 1400 wells in 741 water systems, 59 wastewater plants, and 203 sewer collection systems in the state. The Company's service territory spans 51 counties in North Carolina and stretches 400 miles from Turkey Pen Gap in Transylvania County in the west to Harkers Village in Carteret County on the coast. Aqua hereby applies for an adjustment in water and sewer rates and charges for all of its service areas in North Carolina.

B. OVERVIEW OF APPLICATION FOR INCREASE IN RATES

1. On November 26, 2019, Aqua filed 30 days' notice of its intent to file this general rate case application, in compliance with Commission Rule R1-17.
2. Aqua's last general rate case was decided by NCUC Order entered on December 18, 2018 in Docket No. W-218, Sub 497 ("Sub 497 Rate Case Order").
3. The test year for this general rate case is the year ended September 30, 2019. This is the most recent twelve months of data available.
4. Aqua's currently-authorized overall rate of return on rate base is 7.165%, which is based on an authorized rate of return on common equity of 9.70%, established by the Commission in its Sub 497 Rate Case Order. Based on per-books results, Aqua's test year overall return on rate base for the Company's combined water and sewer operations was 5.41%. Its per-books test year overall returns were 5.18% for water operations and 5.91% for sewer operations.
5. The new, proposed rates applied for by Aqua are necessary because the Company has been confronted with increased capital investments and operating costs required to comply with service and regulatory obligations, increased operating costs to maintain or upgrade the level of service, and changes in consumption, all occurring during the test year and continuing up through the time of filing this Application.

6. Aqua's filing is substantially related to the need to recover the costs of the significant amount of capital investment Aqua has made since the last rate case; it is not, however, the result of individually significant water or wastewater projects. Of the approximate \$50,000,000 increase in proposed rate base, no project was individually more than \$1,500,000 and only eight exceed \$500,000.
7. Aqua's requested rate increase in this general rate case is premised on a proposed overall rate of return of 7.175% on the Company's rate base for its combined water and sewer operations. The Company's proposed overall rate of return of 7.175% is based upon a capital structure consisting of 50% long-term debt and 50% common equity and cost rates of 4.25% for long-term debt and 10.10% for common equity.
8. Aqua is organized into the following five Rate Divisions for ratemaking purposes:
 - a. Aqua Uniform Water
 - b. Aqua Uniform Sewer
 - c. Brookwood Water
 - d. Fairways Water
 - e. Fairways Sewer
9. As a matter of rate design in this case, Aqua proposes to apply a conservation normalization factor to the calculation used to determine the consumption component. This factor is necessary to more effectively

account for current consumption patterns and represent anticipated consumption necessary to recover the approved revenue requirement from the current customer base included in the rate case.

10. Aqua proposes to initiate a Conservation Rate Pilot Program ("Pilot") that includes a revenue reconciliation component. Several systems were identified for piloting in the Aqua Uniform Water and Fairways Water rate entities. The Pilot incorporates the use of several volumetric rate tiers at various consumption levels to determine their impact on customer usage patterns with a goal of promoting conservation. Aqua's Pilot includes a proposed revenue reconciliation process to ensure the approved revenue requirement intended to result from the piloted customers are realizable as proposed by the Company in NCUC Docket W-100, Sub 59 ("Sub 59").
11. In accordance with the provisions of G.S. 62-134 and NCUC Rule R1-17, Aqua herewith files revised, proposed tariffs, copies of which are attached as Appendix A. The new tariffs will be placed into effect on Thursday, January 30, 2020 unless suspended by the Commission.
12. The proposed tariffs are designed to produce additional gross revenues on a company-wide basis of \$6,819,722, an 11.20% increase over the total revenue level generated by the rates currently in effect for Aqua.
 - a. For the Aqua Uniform Water Rate Division, the proposed tariffs are designed to produce additional gross revenues of \$4,056,556, an

11.20% increase over the total revenue level generated by the rates currently in effect for that Rate Division.

- b. For the Aqua Uniform Sewer Rate Division, the proposed tariffs are designed to produce additional gross revenues of \$1,545,147, a 9.91% increase over the total revenue level generated by the rates currently in effect for that Rate Division.
- c. For the Brookwood Water Rate Division, the proposed tariffs are designed to produce additional gross revenues of \$1,022,336, a 17.75% increase over the total revenue level generated by the rates currently in effect for that Rate Division.
- d. For the Fairways Water Rate Division, the proposed tariffs are designed to produce additional gross revenues of \$113,380, a 10.07% increase over the total revenue level generated by the rates currently in effect for that Rate Division.
- e. For the Fairways Sewer Rate Division, the proposed tariffs are designed to produce additional gross revenues of \$82,302, a 3.74% increase over the total revenue level generated by the rates currently in effect for that Rate Division.

Aqua requires increased revenues at these levels to earn a fair return on its company-wide water rate base of \$168,896,563 and sewer rate base of \$72,840,439.

13. Further, the proposed tariffs include a provision allowing for a pass-through of the cost of water and sewer service, including applicable taxes and fees, required to serve the needs of Aqua's customers in a particular service area, when that water or sewer service is purchased from another supplier. This provision is authorized by G.S. 62-133.11.

14. Pursuant to the provisions of G.S. 62-135, Aqua hereby notifies the Commission that the Company intends to partially implement its proposed rates on a temporary, interim basis subject to refund, effective for service rendered on and after six months from January 30, 2020, assuming that the Commission: (a) suspends the operation of the Company's proposed rates as requested in this Application; and (b) has not entered a final order by that date. Consistent with the customer notice provisions of G.S. 62-135(a), Aqua further requests that the Notices to Customers attached to the NCUC scheduling order hereafter issued in this docket include a specific provision which notifies customers that the Company intends to implement temporary rates under bond effective for service rendered on and after six months from January 30, 2020.¹

15. In accordance with NCUC Rule R1-17(b) and following the prescription of the Commission's Application for Rate Case form, Aqua attaches hereto

¹ Aqua hereby acknowledges and agrees that, in placing temporary rates in effect under bond, the Company will observe and abide by all of the statutory restrictions and requirements set forth in G.S. 62-135, including the 20% limitation specified in subparagraph (b) and the bonding and undertaking to refund provisions, including interest, specified in subparagraphs (c) and (d).

and incorporates herein by reference a completed form application, along with the schedules to support the requested adjustments in rates, including:

- a. Appendix 1, a brief summary of all proposed increases and charges affecting customers, required by Commission Rule R1-17(b)(9)f;
- b. NCUC form captioned Application for Rate Increase and Exhibits A-P thereto, which present the information required by the provisions of Commission Rule R-17(b)(1) – (b)(10); and
- c. NCUC form W-1, Rate Case Information Report---Water and Sewer Companies and associated schedules, required by Commission Rule R1-17(b)(12)d.

16. The Exhibits attached to the NCUC form Application for Rate Increase, arranged here in order of the requirements of NCUC Rule R1-17(b), are as follows:

<u>RULE REFERENCE AND DESCRIPTION</u>	<u>EXHIBIT AND DESCRIPTION</u>
<u>R1-17(b)(1)</u> <i>Present Rates and Charges</i>	<u>Exhibit J</u> <i>Comparison of Present and Applied for Rates</i>
<u>R1-17(b)(2)</u> <i>Proposed Rates and Charges</i>	<u>Exhibit O</u> <i>Applied for Rate Schedule</i>

R1-17(b)(3)

Original Cost Rate Base

R1-17(b)(5)

Plant Depreciation

R1-17(b)(6)

*Materials and Supplies as of
September 30, 2019*

R1-17(b)(7)

Cash Working Capital

R1-17(b)(8)

*Operating Experience for 12 months
ended September 30, 2019, including:*
 *(a) gross operating revenues
 received*
 (b) expenses incurred
 *(c) net operating income for
 return on investment*

R1-17(b)(9)

*Effect of Proposed Increase,
including:*

*(a) additional annual gross
 revenue from proposed
 increase*

*(b) additional annual
 expenses anticipated*

*(c) net additional revenue
 from proposed increase*

*(d) rate of return estimated
 from proposed rates*

Exhibit A

Original Cost Rate Base

Exhibit B

*Plant Additions, Allocations, and
Releated Depreciation*

Exhibit A

Original Cost Rate Base

Exhibit L

*Calculation of Cash Working
Capital*

Exhibit D

*Profit and Loss Statement -
Water and Sewer*

Exhibit G

*Calculation of Revenue
Requirement Based on Return
on Equity*

Exhibit D

*Profit and Loss Statement -
Water and Sewer*

Exhibit D

*Profit and Loss Statement -
Water and Sewer*

Exhibit M

*Return on Common Equity and
Original Cost Rate Base*

*(e) capital structure before
and after proposed increase*

Exhibit M
*Return on Common Equity and
Original Cost Rate Base*

R1-17(b)(10)
Balance Sheet

Exhibit C
Consolidated Balance Sheet

R1-17(b)(10)
Income Statement

Exhibit D
*Profit and Loss Statement -
Water and Sewer*

R1-17(b)(10)
Balance Sheet

Exhibit C
Consolidated Balance Sheet

17. In accordance with NCUC Rule R1-24(g)(2) , Aqua files its Direct testimony with the Application and as Appendix 3. A summary of testimonies follows:

- a. Direct Testimony of Shannon V. Becker - Appendix 3, Schedule 1
- b. Direct Testimony of Amanda Berger - Appendix 3, Schedule 2
- c. Direct Testimony of Edward Thill - Appendix 3, Schedule 3
- d. Direct Testimony of Joseph Pearce - Appendix 3, Schedule 4
- e. Direct Testimony of Dylan D'Ascendis - Appendix 3, Schedule 5
- f. Direct Testimony of Dean Gearhart - Appendix 3, Schedule 6

18. Water and Sewer System Improvement Charge ("WSIC/SSIC")

Mechanisms. Pursuant to G.S. 62-133.12 and Commission Rules R7-39 and R10-26, the Commission found it to be in the public interest to authorize Aqua, as part of the Company's 2014 and 2018 general rate case applications in Docket Nos. W-218, Subs 336 and 497, respectively, to implement Water and Sewer System Improvement Charge Mechanisms applicable to all of the Company's customers. By these statutory and

Commission-authorized Mechanisms, the Company is allowed to recover the annual incremental depreciation expense and capital costs of eligible water and sewer system improvements completed and placed in service between rate cases.

Aqua has included its Company's Ongoing Three-Year WSIC/SSIC Plan as part of this Rate Case Application as required by NCUC Rules R7-39(c)(1) and R10-26(c)(1), filed as Appendix 2, hereto. Consistent with NCUC Rules R7-39(k) and R10-26(k), Aqua's Commission-authorized WSIC and SSIC surcharges will be reset to zero as of the effective date of new base rates established in this general rate case. Thereafter, only the incremental depreciation expense and capital costs of new eligible water and sewer system improvements that have not previously been reflected in the Company's rates will be recoverable through the WSIC/SSIC Mechanisms on a going-forward basis.

By law, the cumulative maximum charges between rate cases that the Company may recover using its Commission-authorized WSIC/SSIC Mechanisms cannot exceed five percent of the total service revenues that the Commission ultimately approves in this general rate case. In this Application, the Company has requested that the Commission allow it to recover total water service revenues of \$40,260,076 and total sewer service revenues of \$17,140,346 from Aqua Uniform Rate Division customers. In addition, the Company has requested that the Commission

allow it to recover total water service revenues of \$6,781,753 from the Brookwood Water Rate Division and \$1,239,392 from the Fairways Water Rate Division, and total sewer service revenues of \$2,283,340 from the Fairways Sewer Rate Division.

Five percent of these water revenues under the WSIC Mechanism is \$2,013,004 for the Aqua Uniform Water Rate Division, \$339,088 for the Brookwood Water Rate Division, and \$61,970 for the Fairways Water Rate Division. Five percent of these sewer revenues under the SSIC Mechanism is \$857,017 for the Aqua Uniform Sewer Rate Division and \$114,167 for the Fairways Sewer Rate Division.

If the Commission permits the Company to recover the revenue requirements requested in the Application, the Company projects that the average monthly water bill for a typical Aqua Uniform Rate Division residential customer (based upon monthly water usage of 4,518 gallons) would be \$52.29 and the flat rate monthly sewer bill for a typical residential customer would be \$80.18. In addition, the Company projects that the average monthly water bill for a typical Brookwood Rate Division residential customer (based upon monthly water usage of 4,743 gallons) would be \$39.95. Finally, the average monthly water bill for a typical Fairways residential customer (based upon monthly water usage of 5,929 gallons) would be \$13.97, and the flat rate monthly sewer bill for a typical residential customer would be \$60.83.

Based upon these figures, the Company estimates that the maximum that the average residential customer's monthly water bill in the Aqua Uniform Water Rate Division could be increased by the WSIC Mechanism between rate cases is \$2.61 and the maximum that the average residential customer's monthly sewer bill could be increased by the SSIC Mechanism between rate cases is \$4.01. The Company further estimates that the maximum that the average residential customer's monthly water bill in the Brookwood Water Rate Division could be increased by the WSIC Mechanism between rate cases is \$2.00. Similarly, the maximum that the average residential Fairways' customer's monthly water bill could be increased by the WSIC between rate cases is \$0.70, and the maximum their sewer bill could be increased by the SSIC Mechanism between rate cases is \$3.04.

19. Impact on Average Water Bills. Average residential water bills in the Aqua service areas (except where Aqua has been approved to pass-through the costs to purchase water from a third-party supplier), would increase as follows if the rates currently requested are approved:

Entity	Gallons Billed Per Month (Avg)	Current Bill (Based on Avg)	Requested Bill (Based on Avg)
Aqua Uniform Water	4,518	\$46.82	\$52.29
Brookwood Water	4,743	\$33.00	\$39.95
Fairways Water	5,929	\$17.39	\$13.97

20. Impact on Average Sewer Bills. Average residential sewer bills across the applicable systems (except where Aqua has been approved to pass-through the costs to purchase sewer treatment from a third-party supplier), would increase as follows if the rates currently requested are approved:

Entity	Gallons Billed Per Month (Avg)	Current Bill (Based on Avg)	Requested Bill (Based on Avg)
Aqua Uniform Sewer	Flat	\$72.87	\$80.18
Fairways Sewer	Flat	\$58.60	\$60.83

21. Changes in Costs, Post-filing of Application. G.S. 62-133(c) states that "...the Commission shall consider such relevant, material and competent evidence...tending to show actual changes in costs, revenues or the cost of the public utility's property used and useful, or to be used and useful within a reasonable time after the test period, in providing the service rendered to the public within this State...which is based upon circumstances and events occurring up to the time the hearing is closed." The Company includes in this Application adjustments based upon its estimates of certain changes in costs that are anticipated to occur up to the time the hearing is closed, and the Company intends to offer evidence to support these changes. As required by Commission Rule R1-17(b), the Company specifically identifies estimates of the terms it intends to update within each W-1, Item 10 section, as applicable, and reserves the right to

propose additional updates, as appropriate, through the close of the hearing in this case.

22. Compliance with Decretal Paragraphs from Docket No. W-218, Sub 497.

Aqua has carefully reviewed the Commission's Docket No. W-218, Sub 497 Rate Case Order, issued on December 18, 2018, to ensure that the Company has complied with all applicable decretal paragraphs which required Commission-ordered actions. The Company hereby confirms that it has complied with all the items ordered, and a significant part of that compliance list follows:

- a. Ordering Paragraph 9 – Filing of Bi-Monthly Report on Water Quality Issues
- b. Ordering Paragraph 10 - Semi-Annual Report Regarding Secondary Water Quality Concerns
- c. Ordering Paragraph 11 – Filing of Notice of Deficiency (“NOD”), Quarterly Update
- d. Ordering Paragraph 11 – Filing of Three-Year WSIC/SSIC Plan
- e. Ordering Paragraph 11 – Filing of Annual Heater Acquisition Incentive Account Report
- f. Ordering Paragraph 11 – Submission of Secondary Water Quality Filtration Request Executive Summaries
- g. Ordering Paragraph 12 – Filing of Quarterly Earnings, WSIC/SSIC Revenue, and Construction Status Reports

- h. Ordering Paragraph 12 - Public Staff Quarterly Water Quality Complaint Reports – Aqua works to provide customer call detail and system information necessary for the Public Staff to properly research and file the Quarterly Water Quality Complaint reports.
- i. Ordering Paragraph 14 – Submission of communications with DEQ to Public Staff.
- j. Ordering Paragraph 15 – A filing of the Company's Water Quality Plan and detailing of several specific items with in its Customer Communication Plan.
- k. Ordering Paragraph 17 – File a response on the status of the Commission request to investigate and evaluate the possibility of entering into agreements with vendors of home filtration water systems and replacement filters for a discount.
- l. Ordering Paragraph 18 - The development and submission of a robust general flushing plan for certain systems affected by iron and/or manganese in coordination with the Public Staff.
- m. Ordering Paragraph 20 - The development of a proposed policy and procedure, in consultation with the Public Staff, for providing a bill credit when Aqua requests that a customer flush his/her individual line to address a water quality issue.

- n. Ordering Paragraph 24 - An amendment to Aqua's tariffs detailing its connection and capacity fee practices and procedures on a subdivision-by-subdivision basis.
- o. Ordering Paragraph 25 - Compliance filing to show present and future accounting treatment of the Johnston County capacity and treatment expenses
- p. Ordering Paragraph 27 - A reporting on the specific nature of the expected benefits to be achieved once deployment of AMR technology is completed in all Aqua America operating states.

C. SPECIFIC COMPONENTS OF THE RATE CASE APPLICATION, IN ADDITION TO THE REQUEST FOR A GENERAL RATE INCREASE.

1. In addition to Aqua's request for a general rate increase, items pertinent to this Application and proceeding, include (but are not limited to) the following:
 - a. Pass Through Rates - Pursuant to G.S. 62-133.11, Aqua requests continued recognition of its authority to pass through in rates any documented increases in the bulk cost of water or wastewater service incurred by the Company in order to serve its retail customers.
 - b. WSIC/SSIC Mechanism - The Company's Commission-approved Water and Sewer System Improvement Charge Mechanism ("WSIC/SSIC") will, after being reset to zero in this proceeding, also

continue in effect to allow for Commission consideration of surcharge cost recovery of future eligible water and sewer system improvement projects that have not previously been reflected in Aqua's rates.

- c. Consumption Adjustment Mechanism ("CAM") - Aqua requests authority to implement a "Consumption Adjustment Mechanism" within each of the Company's five Rate Divisions, pursuant to newly adopted G.S. 62-133.12A and subject to the final rules to be defined under Docket No. W-100, Sub 61.²

This mechanism, if approved for use, is intended to provide a true-up of the average per-customer consumption levels used to calculate rates necessary to achieve an approved revenue requirement. It provides the Company and its customers rate protections during periods of fluctuating consumption – high or low--that could otherwise result in over or under collections of approved revenue levels.

- d. Conservation Rate Pilot – Aqua requests authority to implement the aforementioned Pilot, which includes a revenue reconciliation process that will ensure the approved revenue requirement dedicated to the customers within the Pilot systems is realizable.³

²Aqua also reserves the right to withdraw the CAM if the rules to be adopted in Docket No. W-100 Sub 61, render use of a CAM infeasible for the Company.

³ This was a component of the Company's proposal in Docket W-100, Sub 59 ("Sub 59").

Aqua selected five subdivisions across two water Rate Divisions to include in the Pilot. The program applies a rate design using tiered volumetric rate structures to balance the risk and impact of rate design on varying consumption levels with the intent of incenting conservation. The Pilot will provide actual results that can be analyzed to assess the impact of multiple tiered rate structures on consumption patterns for a significant subset of customers before applying the program on a larger scale. Aqua has developed the Pilot to be reasonable in complexity and representative of the long-range scope, so rate tiers may be amended accordingly to provide intended outcomes and applied to the consolidated customer population in the future.

The implementation of the Pilot is intended to reduce average per-customer consumption. As a result, it also introduces heightened risk that the Company's approved revenue requirement from the piloted customer base will not be met, particularly when utilizing historical averaging methodologies that have been typically employed when calculating consumption for rate design purposes. A revenue reconciliation process is, therefore, being proposed and is an integral component of the conservation Pilot. The revenue reconciliation process is further described in witness Thill's Direct Testimony.

A CAM would typically be employed to provide this level of consumer and company protection. However, since the final rules of the CAM are to be defined under Docket No. W-100, Sub 61, Aqua proposes to incorporate the use of a simple, stand-alone revenue reconciliation process within this Pilot to reconcile any gaps in “realized” versus “approved” revenue.

- e. Petition for Deferred Accounting - Aqua requests authorization to defer post-in-service depreciation expense and carrying costs related to capital projects expected to be placed in service during the post-test year period. The Company proposes to defer carrying costs and depreciation on the post-test year projects, exclusive of routine replacements, from the in-service dates until the projects are included for recovery in base rates in this case.

Regulatory lag operates to prevent timely recovery of and on Aqua's investment of capital since the cut-off period in the last rate case. Regulatory lag, particularly at the recently increased levels of capital need, has been determined to be a material contributor inhibiting Aqua's ability to earn its authorized return. The approval of deferred accounting for a significant amount of capital projects will help minimize the negative impact rate lag has on Aqua's earnings.

- f. Excess Capacity – Aqua requests that adjustments to calculate and disallow associated costs related to excess capacity that have been

made in previous rate cases be eliminated from this proceeding. Aqua has not included an estimated adjustment to remove costs related to excess capacity in this filing, and the rationale in support is contained in witness Becker's Direct testimony.

- g. Operation and Maintenance ("O&M") Recovery – Aqua requests the Commission consider alternative treatment for several adjustments to O&M accounts that have been made in one or more previous rate cases. Included in this category are insurance and purchased water expenses above certain levels recommended by the Commission. Aqua is prudent in its efforts to properly manage its utility operations and requests recovery of all expenses incurred on behalf of its customers. Aqua proposes alternative methodologies in this case to ensure recovery of only those expenses that are deemed prudent.

WHEREUPON, Aqua hereby requests that the Commission approve: (a) the proposed new rates contained in Appendix A effective January 30, 2020, and (b) the other requests set forth in this Application.

Respectfully submitted this the 31st day of December 2019.

Electronically Submitted
/s/Jo Anne Sanford
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**ATTORNEYS FOR AQUA NORTH
CAROLINA, INC.**

DOCKET NO. W-218, SUB 526**APPENDIX 1: Per Rule R1-17(b)(9)f****SUMMARY OF ALL INCREASES AND CHANGES AFFECTING CUSTOMERS**

The rates proposed by Aqua on a company-wide basis are designed to produce an 11.20% increase in total operating revenues, applicable to North Carolina retail operations, as applied to the test year ended September 30, 2019. The rate increase is proposed to take place on Thursday, January 30, 2020, unless suspended by the Commission. The net additional revenue which the proposed increase in rates will produce is \$6,819,722 for Aqua and the proposed impact on customers' retail rates would be as follows:

WATER CUSTOMERS: The average water bills in the Aqua service area rate divisions, based on average usage as shown below, would increase as follows if the rates currently requested are approved:

Entity	Gallons Billed Per Month (Avg)	Current Bill (Based on Avg)	Requested Bill (Based on Avg)
Aqua Uniform	4,518	\$46.82	\$52.29
Brookwood	4,743	\$33.00	\$39.95
Fairways	5,929	\$17.39	\$13.97

SEWER CUSTOMERS: Average residential sewer bills in the Aqua service area rate divisions, based on average usage as shown below, would increase as follows if the rates currently requested are approved:

Entity	Gallons Billed Per Month (Avg)	Current Bill (Based on Avg)	Requested Bill (Based on Avg)
Aqua Uniform	Flat	\$72.87	\$80.18
Fairways	Flat	\$58.60	\$60.83

In addition, pursuant to G.S. 62-133.11, the Company requests continued recognition of its authority for a pass-through of any increases in purchased bulk water rates, subject to sufficient proof by the Company of the increase, as well as a pass-through of any increased costs of sewer treatment performed by third parties and billed to Aqua.

Aqua's Commission-authorized WSIC/SSIC Mechanisms will apply to all customers currently served by the Company. The WSIC/SSIC Mechanisms, which were authorized and found to be in the public interest by the Commission pursuant to G.S. 62-133.12 in the Company's 2018 Rate Case Order in Docket No. W-218, Sub 497, allow for recovery, between rate cases and up to a maximum overall 5% increase in rates, of qualifying investments in eligible infrastructure, under Commission oversight.

VERIFICATION

Shannon V. Becker, being duly sworn, deposes and says:

That he is the President of Aqua North Carolina, Inc.; that he is familiar with the facts set out in this **APPLICATION FOR A GENERAL INCREASE IN RATES** filed by Aqua North Carolina, Inc. in Docket No. W-218, Sub 526; that he has read the foregoing Application and knows the contents thereof; and that the same is true of his knowledge except as to those matters stated therein on information and belief, and as to those he believes them to be true.

Shannon V. Becker
Shannon V. Becker

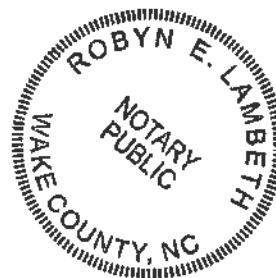
North Carolina
Wake County

Sworn to and subscribed before me
this the 31st day of December 2019.

Robyn E. Lambeth
Notary Public

Robyn E. Lambeth
Printed Name

My Commission Expires: May 13, 2021
Date



CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of the foregoing **APPLICATION FOR A GENERAL INCREASE IN RATES** filed by Aqua North Carolina, Inc. in Docket No W-218, Sub 526, has been served on the Public Staff, North Carolina Utilities Commission, by hand-delivery or electronic transmission to David Drooz, Chief Counsel.

This the 31st day of December, 2019.

Attorney for Aqua North Carolina, Inc.

Electronically Submitted

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