

**R1-17A PROCEDURE FOR WATER AND SEWER INVESTMENT PLAN RATE ADJUSTMENTS
UNDER G.S. 62-133.1B**

(a) Purpose. – This rule provides the procedures for the approval and administration of the Water and Sewer Investment Plan mechanism authorized under G.S. 62-133.1B.

(b) Definitions. – As used in this rule, the following definitions shall apply:

- (1) "Performance-based metrics" shall mean standards to measure utility operations and management, including the management of capital investment projects, intended to benefit customers by ensuring the provision of safe, reliable, and cost-effective service by the utility. Metrics may also be standards that are intended to drive utility performance or support Commission policy goals provided that they benefit customers by ensuring the provision of safe, reliable, and cost-effective service. In establishing performance-based metrics, the Commission may consider, at a minimum, operational compliance, customer service, service reliability, and workplace health and safety. Performance-based metrics shall be clearly defined, measurable, and easily verified by stakeholders. The Commission may approve penalties or incentives based on the results of approved metrics. Some metrics may be tracking metrics with or without targets or benchmarks to measure utility achievement.
- (2) "Test Year" or "Base Year" shall mean the 12-month period consistent with the term "Operating Experience" as defined in sub-section (b)(8) of Rule R1-17.
- (3) "Rate Year" shall mean each of the three 12-month periods as approved in a Water and Sewer Investment Plan.
- (3a) "Unplanned Emergency Capital Investments" shall mean capital investments used and useful during a Plan term to address risk of noncompliance with primary drinking water or effluent standards, or to mitigate cyber or physical security risks.
- (4) "Utility" shall mean a water, sewer, or water and sewer public utility.
- (5) "Water and Sewer Investment Plan" or "Plan" shall mean a plan under which the Commission sets base rates and revenue requirements through the banding of authorized returns, and authorizes annual rate changes for a three-year period based on reasonably known and measurable capital investments and anticipated reasonable and prudent expenses approved under the plan without the need for a base rate proceeding during the plan period.
- (6) "Capital Investment Project" shall mean discrete, stand-alone capital investments or sub-project-level capital activities that have identical attributes for both of the following:
 - a. A detailed description, including the reason for and scope of, each proposed capital investment project; and
 - b. The asset account per the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts and the annual depreciation rate for each proposed capital investment project.

(c) Filing Requirements. – A request for a Water and Sewer Investment Plan must be consistent with Rule R1-17 unless otherwise noted in this Section. A utility's application for a Water and Sewer Investment Plan must include the following:

- (1) Identification of the Test Year and three Rate Year periods. The first Rate Year shall begin no later than the first day of the month which includes the end of the statutory suspension period under G.S. 62-134.
- (2) A three-year capital investment plan by rate division that includes the following:
 - a. The estimated costs for all proposed capital investment projects expected to be placed in service in the period starting on the date immediately following the end date specified by the Commission for the update of utility plant in service and continuing through the conclusion of the Plan for which the utility seeks cost recovery through the Plan mechanism.
 - b. A detailed description, including the reason for and scope of, each proposed capital investment project.
 - c. The estimated in-service date of each proposed capital investment project and the related estimated retirements, if applicable.
 - d. The asset account per the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts and the annual depreciation rate for each proposed capital investment project.

- (3) Calculations of rate base, as included for Rate Year revenue requirements, by rate division, with exhibits setting forth the specific method utilized for the calculations.
 - (4) All proposed expenses expected to be incurred during each Rate Year by rate division including the following:
 - a. Any forecasts, including all calculations and assumptions, of changes in each expense account.
 - b. Justification for any variation from expense levels proposed in the utility's rate case application.
 - (5) To the extent an inflation factor is used to forecast costs included in Rate Year revenue requirements, identification of the GDP index and the inflation rate used in such forecasts.
 - (6) Proposed revenue requirements, pro forma revenues, and base rates for each Rate Year by rate division, including supporting calculations and exhibits.
 - (7) Proposed Schedule of Rates by rate division for each Rate Year.
 - (8) A calculation of the proposed percent increase for each Rate Year, if applicable.
 - (9) A proposed banding range for the utility's requested rate of return on equity.
 - (10) At least one proposed performance-based metric in each of the following categories:
 - a. Operational compliance.
 - b. Customer service.
 - c. Service reliability.
 - d. Workplace health and safety.
- (d) Establishment of Annual Revenue Requirement. – The Commission shall establish the annual revenue requirement for each Rate Year of a Water and Sewer Investment Plan. The annual revenue requirement for each Rate Year may include reasonably known and measurable capital investments and anticipated reasonable and prudent expenses, provided the Commission finds the Plan results in rates that are just and reasonable and are in the public interest, and meets the other criteria of G.S. 62-133.1B.
- (e) Banding of Authorized Rate of Return on Equity. – The Commission will authorize a rate of return on equity for each Rate Year revenue requirement calculation consistent with the evidence in the record and will set high and low bands for earned rates of return on equity consistent with G.S. 62-133.1B(g). In setting an authorized rate of return on equity for banding of authorized returns pursuant to this Section, the Commission may consider any decreased or increased risk to a utility that may result from having an approved Plan. A utility with an approved Plan may not apply for a general rate increase pursuant to G.S. 62-133 or G.S. 62-133.1 to be effective before the end of the Plan unless the utility's earned rate of return on equity falls below the low-end range of the band established by the Commission.
- (f) Modification. – The Commission may, for good cause shown and after an opportunity for hearing, modify or terminate an existing Water and Sewer Investment Plan for circumstances unforeseen at the time the Plan was established if the Commission determines it is in the public interest. Should a Plan modification be authorized that adjusts previously approved tariff rates, the Commission shall prescribe the form of Notice to Customers.
- (g) Annual Review. – The Plan shall be subject to the following:
- (1) Within 45 days after the end of each Rate Year, each utility shall file a report, containing the following information for the preceding Rate Year:
 - a. A report of refunds or credits disbursed to customers by month and reconciliation of EMF activity by month during the Rate Year by rate division and rate type, if applicable.
 - b. An analysis, including results, of the performance-based metrics established by the Commission, and the calculation of any applicable incentives or penalties.
 - c. A statement that the utility's earnings during the subject Rate Year of the Plan fell within, exceeded the high-end, or fell below the low-end of the band of authorized rate of returns established by the Commission.
 - d. A statement of rate base based on North Carolina ratemaking depicting a 13-month average balance for the completed Rate Year.
 - e. A calculation of earned rate of return on equity based on a 13-month average of the actual cost of debt applicable to the utility for the completed Rate Year, and the authorized ratios of capital components approved in the utility's last general rate case proceeding.
 - f. A schedule of the estimated capital investment projects to be placed in-service during the remaining Rate Years of the Plan, including: total in-service costs, in-service date, applicable rate division, NARUC asset account, and annual depreciation rate.

- (2) The Public Staff shall review the utility's report and shall file a report detailing its findings and recommendations no later than four months after the end of each Rate Year of the Plan. The utility may respond to the Public Staff's report within 15 days after such filing.
 - (3) When determining the utility's earned rate of return on equity, the Commission may consider pro forma adjustments to the utility's per books capital expenditures, expenses, and revenues. For the purpose of determining whether the rate of return on equity for any Rate Year falls outside of the high and low bands, the earned return on equity shall be calculated based on the capital structure established in the utility's last general rate case, and on a 13-month average of the actual cost of debt.
 - a. If the utility's earned rate of return on equity exceeds the high-end range of the band established by the Commission, the excess earnings shall be refunded to customers as provided in subsection (i) of this rule.
 - b. If the utility's earned rate of return on equity falls below the low-end range of the band established by the Commission, the utility may apply for a general rate increase pursuant to G.S. 62-133 or G.S. 62-133.1.
 - (4) The Commission shall issue an order addressing its findings and making effective any reconciliation or adjustment to the Plan it deems appropriate. Any reconciliation or adjustment ordered by the Commission, including any credit to customers of excess earnings above the high end of the banding of authorized rates of returns on equity established by the Commission, shall remain effective for a 12-month period. Any refund or credit shall be included on customer bills as a separate line item and will not be included in the calculation of earnings performed for annual audit and reconciliation filings.
- (h) Experience Modification Factor. – The experience modification factor (EMF) shall be established when applicable to reconcile the difference between the credit ordered by the Commission pursuant to subsection (i) of this section and the actual credit amount applied to customer bills. If the effective date of Rate Year One is before the date of the Commission's Order approving the Plan, the Commission may establish an EMF to account for a delay between the implementation of Rate Year One tariff rates and the effective date of Rate Year One. The EMF shall remain in effect for the 12-month period unless the true up is included in the excess earnings credit calculation.
- (i) Credit for Excess Earnings. – If the Annual Review determines that the utility earned higher than the authorized high band rate of return on equity for a Rate Year, the Commission will authorize a credit to applicable utility customers.
- (1) The credit shall be included on customer bills as a separate line item and will not be included in the calculation of earnings performed for Annual Review filings.
 - (2) The credit shall be expressed as a percentage carried to two decimal places and shall be applied to the total utility bill of each customer under the utility's applicable service rates and charges.
 - (3) Pursuant to G.S. 62-130(e), any amount to be credited to a utility's customers shall include an amount of interest at such rate as the Commission determines to be just and reasonable, not to exceed the maximum statutory rate.
 - (4) The credit percentage shall be computed by dividing the Total Service Revenues for the following 12 months for which the credit will be in effect by the amount to be credited to customers, inclusive of interest. The credit will be effective no later than the first day of the second month following the Commission order authorizing the credit.
 - (5) In its order authorizing a credit for excess earnings, the Commission shall include a form of Notice to Customers to be issued with customer bills in the first billing cycle the credit is effective.
- (j) Reporting Requirements. – The utility shall make filings addressing each three-month period within the Plan period. The first filing shall be made no later than 45 days after the first three-month period, and subsequent reports shall be made every three months thereafter. Each filing shall contain the following:
- (1) An earnings report consisting of the following:
 - a. A balance sheet and income statement for the three months and twelve months to date for the utility.
 - b. A statement of the per books net operating income for the three months and twelve months to date for each rate division of the utility based on North Carolina ratemaking.
 - c. A statement of rate base at the end of the three months for each rate division of the utility based on North Carolina ratemaking.
 - d. The number of customers, gallons sold, and service revenue for the three months for each rate division by rate type (meter size, flat rate, etc.).

- (2) A status report which includes by rate division the following information for each capital investment project:
 - a. The costs incurred during the three months.
 - b. The cumulative amount incurred.
 - c. The original and revised estimated total cost for each project.
 - d. The in-service date estimated in the Plan.
 - e. The actual date placed in service or, if not yet placed in service the current estimated placed in-service date.
 - f. A schedule of all changes to the capital investment projects approved in the Plan for the remainder of the Plan period, including the information outlined in subsections (c)(2)(b)-(d) of this Rule for any capital investment project not approved in the original Plan.
 - (3) The number of utility customers disconnected for nonpayment for the three-month period and cumulative rate-year to date.
- (k) Continuation of Rates. – If the utility does not have a new general rate case effective at the end of Rate Year Three, the rates in effect at the end of Rate Year Three shall remain in effect, and the utility shall continue to file the reports required under subsection (j) of this rule, until further order of the Commission.
- (l) Petition for Addition of Unplanned Emergency Capital Investments – Once a Water and Sewer Investment Plan is approved, the utility may file a petition with the Commission for consideration of the addition of certain Unplanned Emergency Capital Investments to be effective no less than 60 days before the beginning of Rate Year 2 or Rate Year 3. Prior to the effective date of the change in rates for Rate Year 2 or Rate Year 3, the Public Staff shall schedule the request for Commission consideration at the regularly scheduled staff conference and recommend that the Commission issue an order approving, modifying and approving, or rejecting the addition of the Unplanned Emergency Capital Investments to the Plan. A utility's petition must include the following:
- (1) A detailed description including the reason for and scope of each capital investment project.
 - (2) The estimated in-service date of each capital investment project.
 - (3) The asset account per the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts and the annual depreciation rate for each proposed capital investment project.
 - (4) Calculations of rate base, as included for Rate Year revenue requirements, by affected rate division, with exhibits setting forth the specific method utilized for the calculations.
 - (5) Proposed revenue requirements, pro forma revenues, and base rates for each affected Rate Year by rate division, including supporting calculations and exhibits.
 - (6) Proposed Schedule of Rates by affected rate division for each Rate Year.
 - (7) A calculation of the proposed percent increase for each Rate Year, if applicable.
- (m) Customer Notice. – The notice to customers of the utility's general rate increase application shall include the proposed WSIP and the estimated impact of the charges under the mechanism on the utility's monthly service rates. The notice may be modified if the utility files a Plan only its water or sewer system to reflect that change. The notice shall include the following:

Water and Sewer Investment Plan

This filing also includes a request for approval of a Water and Sewer Investment Plan (WSIP) pursuant to G.S. 62-133.1B and Commission Rule R1-17A. This rate-making mechanism will allow the Company to recover the reasonably known and measurable capital investments and anticipated reasonable and prudent expenses approved under the WSIP. In support of this request, the Company has filed a three-year plan with its application which lists proposed water and sewer capital investment projects, anticipated water and sewer expenses, and the proposed rates to be effective in each year of the WSIP. By law, any rate adjustment allowed under an approved WSIP shall not, on an annual basis for years two and three of the WSIP, exceed five percent of the utility's North Carolina retail jurisdictional gross revenues for the preceding plan year. The Commission may, however, consider the addition of certain unplanned emergency capital investments even if such expenditures would cause the cap to be exceeded.

In this WSIP, the Company has requested that the Commission allow it to recover water service revenues of \$_____ in year one, \$_____ in year two, and \$_____ in year three. If the WSIP is approved without modifications, the average monthly water bill for a typical residential customer (based upon monthly water usage of _____ gallons) would be \$_____ in year one, \$_____ in year two, and \$_____ in year three.

In this WSIP, the Company has requested that the Commission allow it to recover sewer service revenues of \$_____ in year one, \$_____ in year two, and \$_____ in year three. If the WSIP is approved without modifications, the average monthly sewer bill for a typical residential customer (based upon monthly water usage of _____ gallons) would be \$_____ in year one, \$_____ in year two, and \$_____ in year three.

The Commission may eliminate or modify any WSIP approved in this case if it determines that elimination or modification is in the public interest.

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