

R7-40 CONSUMPTION ADJUSTMENT MECHANISM FOR WATER UTILITIES

(a) **Scope of Rule.**—This Rule provides the procedure for the approval and administration of a rate adjustment mechanism pursuant to G.S. 62-133.12A, known as a Consumption Adjustment Mechanism for Water Utilities (CAM-W). This mechanism, if authorized by the Commission in a general rate case proceeding, allows a water utility to track and true-up variations in average per customer water usage from baseline consumption levels established by the Commission in the utility's most recent general rate case proceeding and to subsequently apply to the Commission for authority to establish and adjust charges or credits to recover from or refund to customers the revenue associated with these variations. The rate adjustment mechanism allowed pursuant to this Rule is not applicable to a water utility's customers that are charged based upon a flat rate or purchased bulk water rate or to customers that are served by systems that the utility acquired after the date on which the utility filed its application and were not included in its most recent general rate case proceeding.

(b) **Request for Approval of CAM-W.**—A utility seeking approval of a CAM-W shall include in its application for a general rate increase pursuant to G.S. 62-133 and Commission Rule R1-17 the following:

- (1) A proposed structure of the CAM-W and a proposed method for calculating the charge or credit resulting from the CAM-W that are in sufficient detail to facilitate the Commission's review and determination whether the rate adjustment mechanism is appropriate to track and true-up variations in average per customer usage and whether the rate adjustment mechanism is in the public interest;
- (2) A description of the customer classifications used within the current and any proposed rate schedules that the proposed CAM-W would apply to and the criteria used to group customers in a fair and reasonable manner;
- (3) A three-year billing data analysis that includes a detailed breakdown of the monthly active customer counts and monthly usage data by blocks of 1,000 gallons for each year, customer classification, and rate schedule;
- (4) Testimony, affidavits, exhibits, sample calculations, or other evidence demonstrating that the CAM-W is appropriate to track and true-up variations in average per customer usage and that the CAM-W is in the public interest; and
- (5) Any other information that the Commission may require by order or otherwise in the general rate case proceeding.

(c) **Customer Notice.**—The notice to customers of the utility's general rate case application shall include notice of the request for approval of the proposed CAM-W.

(d) **General Rate Case Review.**—Following notice and hearing, in the general rate case proceeding the Commission will review the utility's proposed use of a CAM-W and determine whether the CAM-W is appropriate to track and true-up variations in average per customer usage by rate schedule from levels adopted in the general rate case proceeding and whether the CAM-W is in the public interest. In conjunction with the Commission's determination that the CAM-W is appropriate and in the public interest, the Commission will establish an average per customer consumption level on an annual basis and/or on a monthly basis for the applicable 12-month period based on the relevant historical consumption data, subject to reasonable pro forma adjustment and normalization, which shall be used to establish a baseline consumption measure or measures.

(e) **Procedure for Establishment of Charge or Credit Resulting from CAM-W; Setting of Adjustment Date.**— On or before the date established by Commission order, but in no event less than 12 months after the Commission issues an order in a general rate case proceeding approving the use of the CAM-W, the utility shall file a request for authority to establish the charge or credit resulting from the CAM-W. The utility's request shall comply with the following:

- (1) The proposed effective date for the charge or credit resulting from the CAM-W shall be no sooner than 60 days after the filing of the request;
- (2) The request shall include a proposed calculation of the charge or credit resulting from the CAM-W specific to each customer classification and rate schedule;
- (3) The proposed calculation shall be consistent with the approved CAM-W structure and make use of the Commission-approved baseline consumption measure or measures; and
- (4) The utility shall provide a copy of the request to the Public Staff.

Prior to the proposed effective date, the Public Staff shall schedule the request for Commission consideration at a regularly scheduled staff conference and recommend that the Commission issue an order approving, modifying and approving, or rejecting the proposed charge or credit resulting from the CAM-W. The Public Staff shall notify the Commission by an appropriate filing in the relevant docket at least 15 days in advance of the date that the request is scheduled for Commission consideration at the regularly scheduled staff conference. In its order approving the

charge or credit resulting from the CAM-W, the Commission shall establish the effective date for the establishment of the charge or credit resulting from the CAM-W and the effective date for the utility's subsequent annual adjustments to the credit or charge previously established. Where practical, the Commission will set the effective date for subsequent annual adjustments to the charge or credit resulting from the CAM-W on the same date of each year coinciding with the effective date of the charge or credit resulting from the CAM-W as initially established.

(f) Annual Adjustments.—A utility authorized to establish a charge or credit resulting from the CAM-W shall annually file a request for an adjustment in the charge or credit resulting from the CAM-W. The request and the supporting calculation and data for an annual adjustment shall be filed with the Commission at least 45 days prior to the annual adjustment date established pursuant to section (e) of this Rule. The utility shall also provide a copy of the request to the Public Staff. Prior to the annual adjustment date, the Public Staff shall schedule the request for Commission consideration at a regularly scheduled staff conference and recommend that the Commission issue an order approving, modifying and approving, or rejecting the proposed adjustment to the charge or credit resulting from the CAM-W. In reviewing the proposed adjustment, the Commission will also consider whether it is appropriate and in the public interest to establish an updated baseline consumption measure or measures from the measure or measures adopted in the rate case proceeding. The Public Staff shall notify the Commission by an appropriate filing in the relevant docket at least 15 days in advance of the date that the requested adjustment is scheduled for Commission consideration at the regularly scheduled staff conference.

(g) Reporting and Auditing.—A utility authorized to establish a charge or credit resulting from the CAM-W shall report to the Commission and the Public Staff shall audit these reports, as provided in this section.

(1) Monthly Filings with the Commission.—Within 30 days of the end of each calendar month, the utility shall file the following reports:

- (i) A balance sheet and income statement for the calendar month and calendar year to date,
- (ii) A statement of per books net operating income for the calendar month and calendar year to date for each rate division of the utility based on North Carolina ratemaking,
- (iii) The actual number of customers and gallons sold for each month for each rate division, customer classification, and rate schedule;
- (iv) Total actual monthly service revenues for each rate division, customer classification, and rate schedule, excluding revenues from customers to which this Rule does not apply; and
- (v) Any other information that the Commission may require by order or otherwise;
- (vi) Provided that, if the Commission has authorized the utility to implement a WSIC mechanism and the utility is appropriately submitting the required quarterly filings pursuant to Commission Rule R7-39, the utility may fulfill the reporting requirements of subdivisions a. and b. of this subsection by reference to its quarterly filings required pursuant to Rule R7-39.

(2) Annual Report.—In conjunction with its request to establish the charge or credit resulting from the CAM-W or for an annual adjustment in the charge or credit resulting from the CAM-W, the utility shall annually file a report in a format prescribed by the Commission detailing its actual gallons billed, service revenues, and revenues from the charge or credit resulting from the CAM-W for each rate division, customer classification and rate schedule for the applicable 12-month period. The annual report shall also include the calculation of the actual average per customer usage for each rate division, customer classification, and rate schedule for the applicable 12-month period, an update to the three years of consumption data that was provided in the general rate case proceeding along with its request to approve the CAM-W or in the utility's last annual report, and an updated average per customer usage baseline measure or measures utilizing the updated consumption data.

(3) Audit and Reconciliation.—The Public Staff shall audit the utility's monthly and annual reports and file the results of the audit to the Commission. The Public Staff's audit of the annual report and the final monthly report in a given 12-month period shall be filed with the Commission as a part of the Public Staff's staff conference agenda item for the consideration of the annual adjustment in the charge or credit resulting from the CAM-W.

(h) Burden of Proof.—The burden of proof as to whether the CAM-W is appropriate to track and true-up variations in average per customer usage by rate schedule from levels adopted in the general rate case proceeding, whether the CAM-W is in the public interest, and the correctness and reasonableness of the charge or credit resulting from the CAM-W shall be on the utility.

(i) Elimination or Modification of CAM-W.—After notice to the utility and opportunity to be heard, the Commission may eliminate or modify any previously authorized CAM-W upon a finding that the CAM-W is no longer appropriate to track and true-up variations in average per customer usage or is no longer in the public interest.

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