



# House Energy and Public Utilities Committee

March 2, 2021

## Regulated Water Industry Perspective:

Shannon Becker and Donald Denton

National Association of Water Companies (NAWC):  
Southeast Chapter



*MOVING WATER FORWARD*



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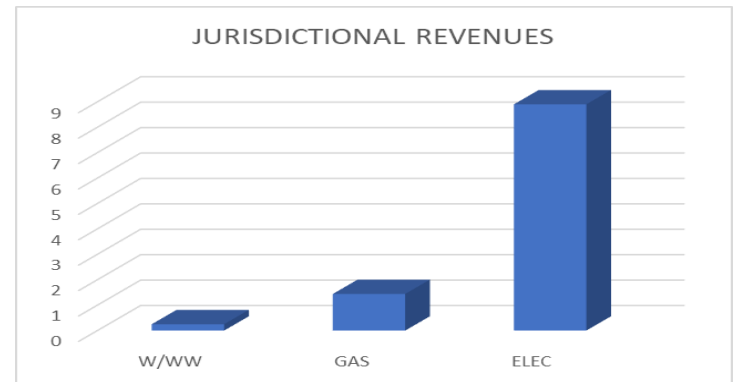
# Overview

- Private Water & Wastewater Utilities
  - Who we are
  - Where we serve
- Regulation of Private Water & Wastewater utilities
  - Economic Regulation
  - Environmental and Public Health Regulation
  - Rate Setting
- Future of regulated Water & Wastewater
  - Aging infrastructure
  - Regulatory lag
  - Policies that impact regulated water/wastewater



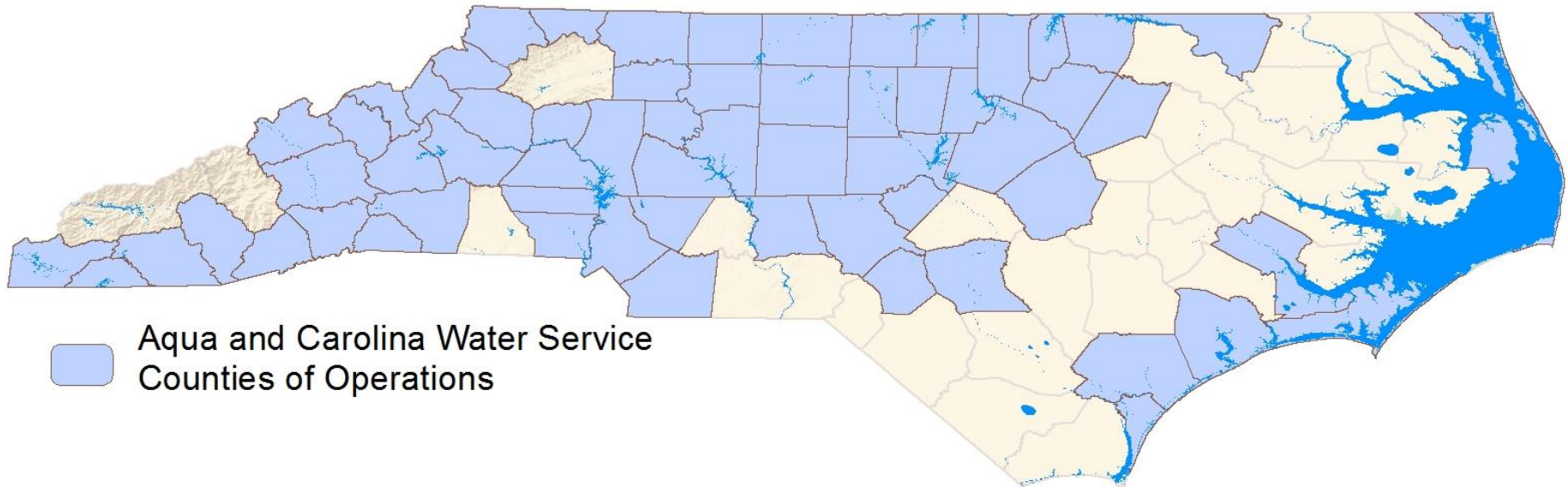
# Who We Are

- Private vs Public
- Regulated by NCUC
  - 97 Regulated water / sewer in NC
  - \$249.6M (W&S) vs \$1.4B (Gas) vs \$8.9B (electric)
- Rural / Remote
- Ground water based in NC
- Consolidated resources - economies



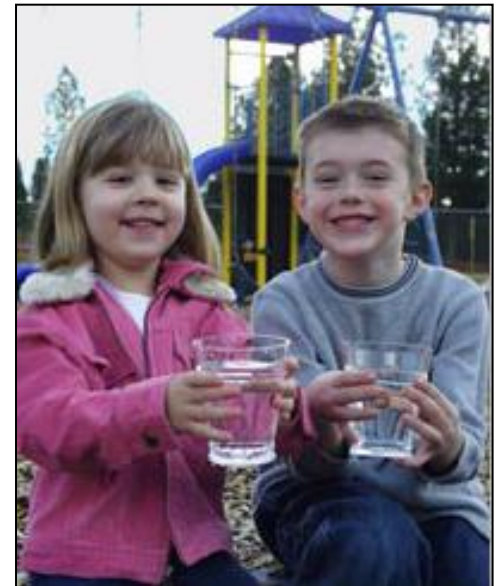
# Where We Serve

Aqua and Carolina Water Service own and operate  
≈ 900 drinking and wastewater systems in North Carolina  
≈ 450,000 people served  
≈ \$70M annual investment  
≈ Employment = 300



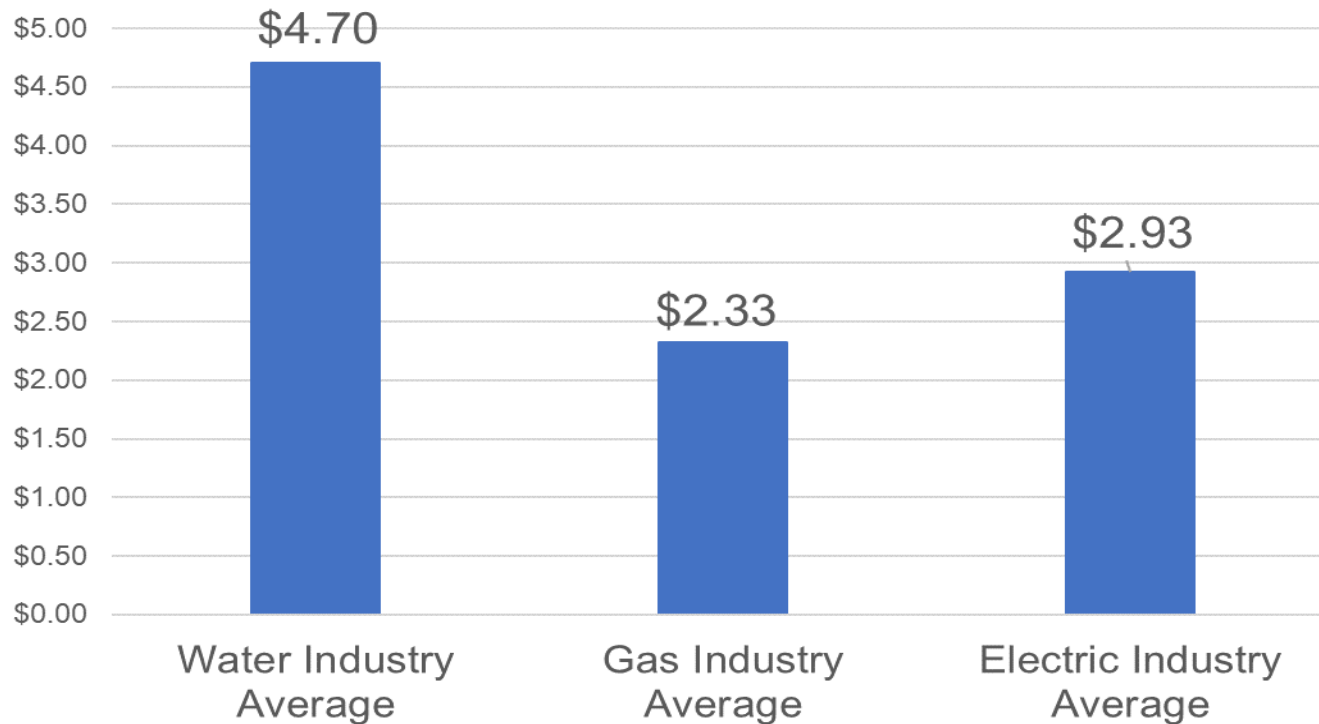
# Expectations for Water Services

- Only utility service physically ingested
- Must always be safe and reliable
- Primary and Secondary water quality standards
- Emerging contaminants
- Cyber and physical threats



# Most Capital Intensive Utility

## 2019 Capital Invested per \$1 of Revenue



# Regulation of Water Utilities

- Economic

- North Carolina Utilities Commission
- North Carolina Public Staff
- NC Attorney General

- Environmental and Public Health

- Environmental Protection Agency (EPA)
- NC Department of Environmental Quality (DEQ)
- NC Department of Health and Human Services (DHHS)
- Local governments





# Rate Setting for Water Utilities

- Rates set in a “Rate Case”
  - Judicial-type proceeding at the North Carolina Utilities Commission
  - Up to 300 day transparent process (filing to order)
    - customer hearings
  - Approved Costs are recovered in new rates
- Utility base rates set pursuant to N.C. Gen. Stat. § 62-133
  - Rates must be **just and reasonable**
  - Rates must be based on the **cost of service**
  - Utility spending must be **necessary and prudent**
  - No cost recovery until investments are **used and useful**



# Impact of Regulatory Oversight

- Regulatory structure is designed to ensure the utility is operating efficiently and effectively (e.g. prudent investments and expenses with rates reflecting cost of service)
- By comparison approximately 40% of government water systems do not generate sufficient revenues from rates to meet operating and capital needs\*



\* Preliminary results of analysis of 149 utilities by the Environmental Finance Center at the UNC School of Government. Source: Ongoing 2017 NC Water and Wastewater Utility Management Survey

# State of Existing Infrastructure



# Water Challenges in North Carolina

- Infrastructure needs over next 20 years\*
  - Drinking Water systems = \$10-15 billion
  - Wastewater systems = \$7-11 billion
    - Users pay the cost
    - Only ~7% of drinking water needs covered by grants\*\*
    - Only ~8% of wastewater needs covered by grants\*\*
- Environmental Standards
  - Emerging Contaminants
- Current Regulatory Framework



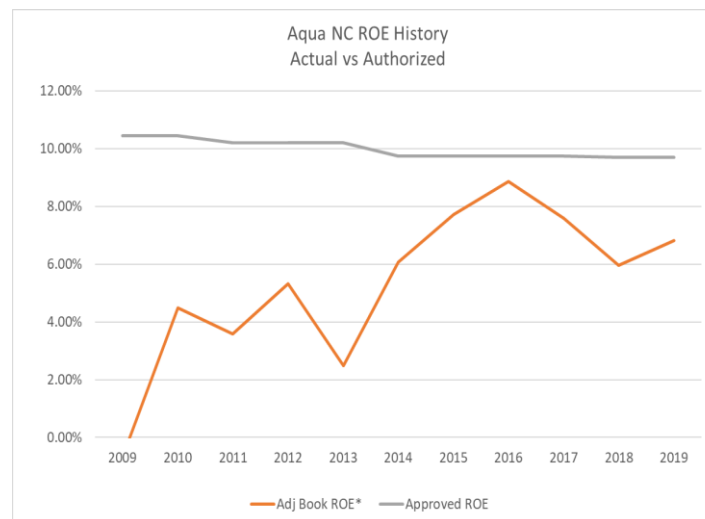
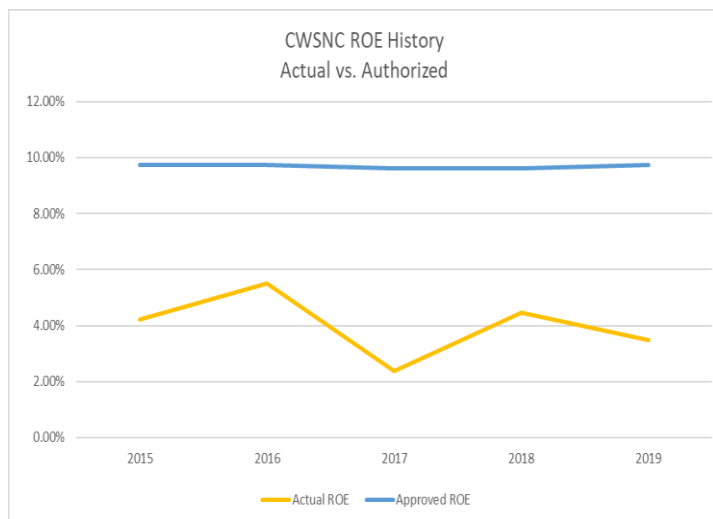
\*Environmental Finance Center (EFC) at the University of North Carolina's School of Government evaluation of needs survey

\*\* State Water Infrastructure Authority, Department of Environmental Quality FY2017 and FY2018 funding sources for NC water and wastewater system

# Water Challenges in North Carolina

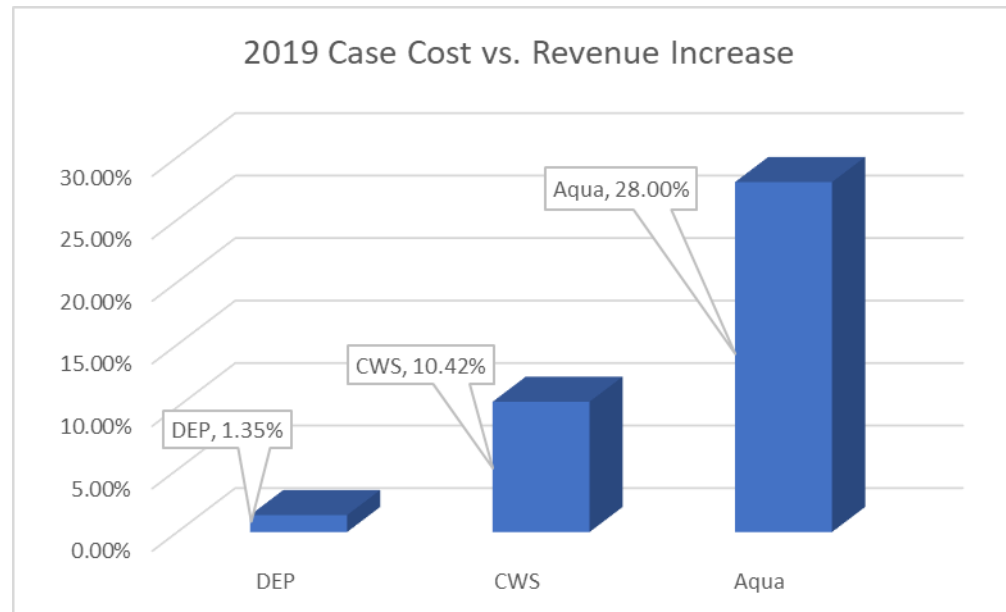
- Regulatory Framework

- “Spend then recover” model
- High spending need and little organic customer growth
- Inability to earn allowed return

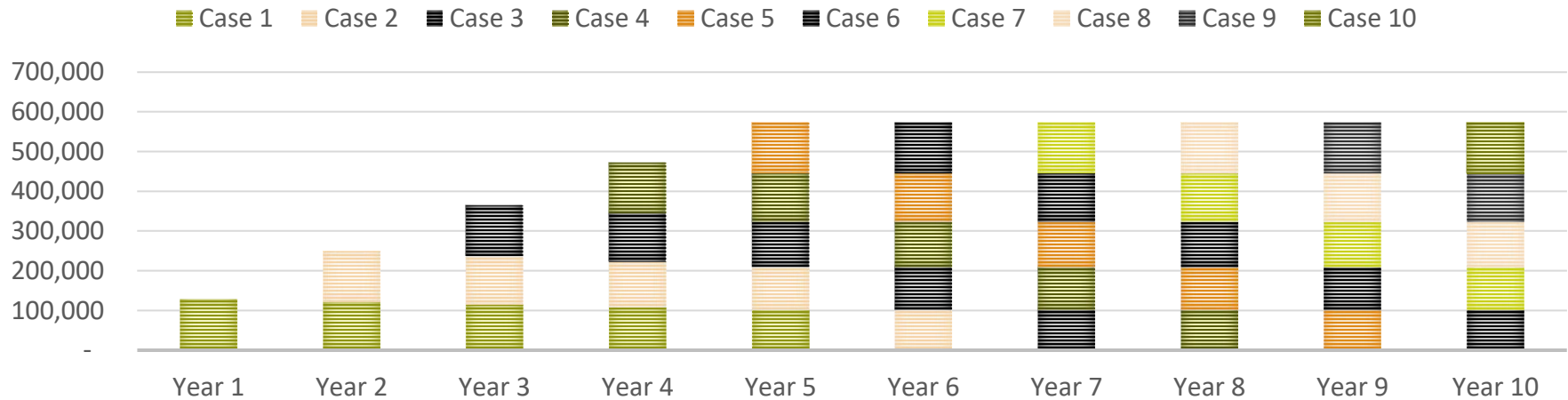


# Water Challenges in North Carolina

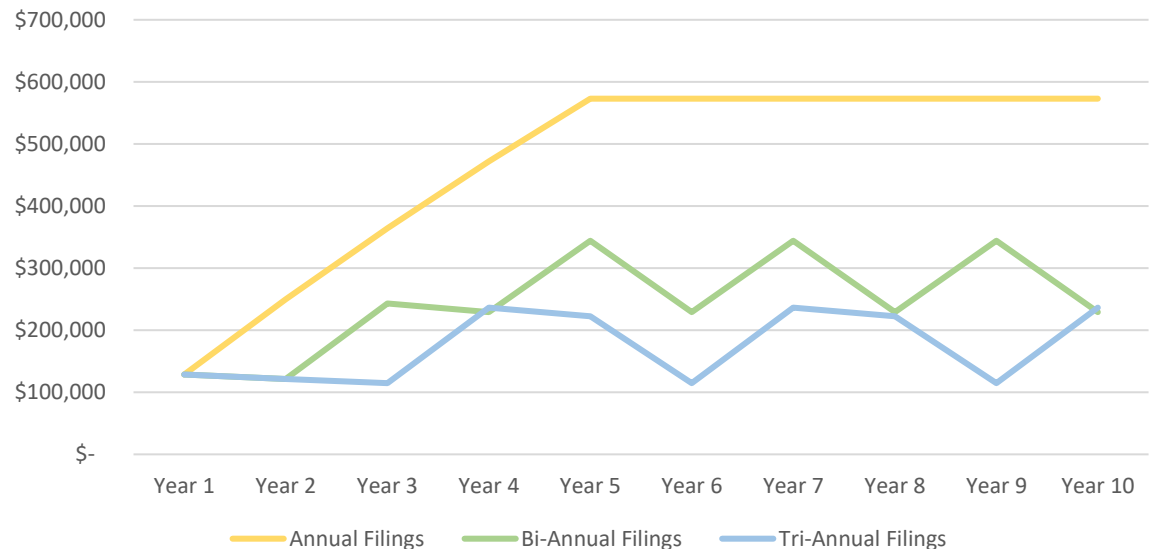
- Regulatory Framework
  - High spending needs and inability to earn allowed return = **more rate cases**
  - Rate case costs are added to rates
  - Rate case costs impact utility customers differently



# Rate Case Cost Impact



Assumes avg. rate case cost of ~\$500,000 amortized over five years



# Thank you



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