

**BEFORE THE  
STATE CORPORATION COMMISSION  
COMMONWEALTH OF VIRGINIA**

APPLICATION OF	)	
	)	
VIRGINIA-AMERICAN WATER COMPANY	)	CASE NO. PUE-2015-00097
	)	
For a general increase in rates	)	

**APPLICATION**

Pursuant to Chapter 10 of Title 56 of the Code of Virginia, and the State Corporation Commission's ("Commission") Rules 20 VAC 5-20 1 -10, *et seq.* and 5 VAC 5-20-80, Virginia-American Water Company ("Virginia-American," "VAWC" or the "Company") respectfully shows:

1. The name and post office address of the applicant is Virginia-American Water Company, 2223 Duke Street, Alexandria, Virginia 22314. The names and address of its counsel are Lonnie D. Nunley, III, and Timothy E. Biller, Hunton & Williams LLP, 951 East Byrd Street, Richmond, Virginia 23219-4074.

2. The Company's last increase in its rates of \$2,287,107 on an annual basis for jurisdictional customers in its combined four Districts was effective for service rendered on and after July 12, 2012, based on a test period ended September 30, 2011.<sup>1</sup>

3. In the four years since the filing of the last rate case the Company has made significant capital investments throughout its system to continue to enhance the quality and reliability of service provided to its existing customers. At the same time, however, water

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<sup>1</sup> Final Order, *Application of Virginia-American Water Company, For a general increase in rates*, Case No. PUE-2011-00127, 2012 S.C.C. Ann. Rep. 351 (Dec. 12, 2012).

consumption per customer has continued to decline, reducing the revenue available to the Company to meet its substantial Operations and Maintenance (“O&M”) expenses and to help fund capital investments. As a result, the Company is not earning its allowed return on equity.

4. Although the Company continues to incur significant amounts of O&M expense, after factoring in the costs associated with adding new customers obtained through the acquisition of Dale Service Corporation (“Dale Service”) discussed below, O&M expenses actually have *decreased* by nearly \$500,000 as compared to the amounts recognized in the 2011 general rate case and Dale Service 2012 AIF. This decreased O&M expense has allowed the Company to offset a portion of the increase that would otherwise have been required to fund the Company’s ongoing capital investments.

5. The Company is seeking a rate increase that would produce additional annual jurisdictional sales revenues of \$8.69 million, or an 18.42% increase in test year revenues, based on a 10.75% return on common equity. The proposed increase for water and/or wastewater revenues for the individual Alexandria, Eastern, Hopewell, Prince William Water and Prince William Wastewater Districts are as follows:

	Amount of Increase	Amount of Increase (%)
Alexandria District	\$2,326,882	15.86%
Hopewell District	\$3,166,663	25.35%
Prince William Water District	\$1,137,416	13.68%
Prince William Wastewater District	\$1,682,310	17.31%
Eastern District	\$372,377	19.07%
Total Company	\$8,685,648	18.42%

6. The Company requests that the Commission approve the requested increases on the basis of the consolidated, total Company revenue requirement. In previous rate cases, the Commission has approved specific increases for each of the Company's operating Districts. Subsequent reviews of the Company's earnings have been conducted for each District with the potential for adjustments to be made to rates based on the results for the individual District without consideration of the earnings in the other Districts. Through the use of a consolidated revenue requirement, the Company asks that the Commission's subsequent reviews of the Company's earnings consider the results for all of the Company's operating Districts together. Reviewing the Company's earnings on this basis allows the customers to benefit from Virginia-American's size and should lead to more stable rates across the Company's system.

7. The Company's need for additional annual revenues will be supported by the testimonies of the following witnesses, which are filed with this Application:

William R. Walsh, President of Virginia-American - Overview of the Company's Application, introduction of other Company witnesses, discussion of the value of the services the Company provides and the efforts that the Company makes in improving the efficiency of its operation. Mr. Walsh also discusses the acquisition of Dale Service by the Company and introduces the Company's proposed Water and Wastewater Infrastructure Service Charge ("WWISC") and Revenue Stability Mechanism ("RSM");

Lauren S. Sufleta, Director of Operations - the Company's operations, the Company's efforts and investments to improve water efficiency as well as the efficiencies gained at Prince William Wastewater as a result of VAWC ownership, and the Hopewell fuel spill;

Tim O'Brien, Interim Engineering Manager - the Company's overall approach to capital management, the Company's major capital investments since the last rate case, upcoming capital needs, and the Company's WWISC Plan;

Gary Akmentins, Manager of Rates and Regulations - Cost of service, ratemaking adjustments, rate base and expenses, American Water Works Service Company, Inc. ("AWWSC" or "Service Company") cost allocation and the Company's request for a WWISC;

Rod Nevirauskas, Director of Rates and Regulations for AWWSC – Capital structure, including rate of return, income taxes and the Company’s proposed RSM;

Greg Roach, Manager of Revenue Analytics for AWWSC –The Company’s water usage forecast and the trend of declining consumption by residential customers;

Jo Anne Lontz, Financial Analyst for AWWSC – The Company’s revenue under current rates, including certain adjustments made by the Company;

Patrick L. Baryenbruch, Consultant – Service Company costs and billings;

Paul Moul, Consultant – Cost of equity and rate of return on equity; and

Paul R. Herbert (Gannett Fleming), Consultant – Cost of service and rate design.

8. As discussed above, the Company is not earning its allowed return on equity and this under-earning performance will continue if the rates are not increased as set forth in this Application.

#### Rate Design

9. The rate design in this Application reflects the Company’s intention to move gradually toward consolidated rates for providing water service across its operating Districts. In addition to requesting that the increase be approved on the basis of a consolidated revenue requirement, the Company also proposes equalizing the fixed service charges in the Alexandria, Hopewell and Prince William Water Districts. As discussed by Company witness Herbert, the centralized nature of Virginia-American’s operations and the equivalent services provided to the customers in each District supports the need to charge more uniform rates. Particularly for residential customers, there is little variation in the service provided to each customer in these districts as similarly situated customers are all served through similar distribution and transmission facilities and from a centralized workforce. The Company believes there is little justification to charge different rates for the delivery of similar service. Given the existing

differences in the rates between Districts, however, the Company believes that a gradual move to a single tariff rate for the same class of customer is in the best interest of customers and will prevent Districts from experiencing significant changes in rates at one time.

10. As was included in the two previous applications for an increase in rates in Case Nos. PUE-2010-00001<sup>2</sup> and PUE-2011-00127, the Company's Application includes a cost of service study ("COSS") that explicitly allocates costs between the Small Industrial Non-Potable rate class and the Large Industrial Non-Potable rate class in the Hopewell District. The COSS further includes an allocation of costs among residential, commercial and industrial potable customers in Hopewell; and accounts for the difference in costs incurred to produce potable versus industrial non-potable water, consistent with previous COSS and in conformance with the requirements set forth in the 2010 Order. Virginia-American will retain its present rate structure in each usage class. This information can be found in Company witness Herbert's COSS, which is attached to his direct testimony.

#### Prince William Wastewater

11. In 2013, the Company acquired Dale Service and has since merged Dale Service into the Company and established its wastewater operations as the Prince William Wastewater District.<sup>3</sup> In this Application, the Company seeks to integrate more fully the Prince William Wastewater District into Virginia-American and, consistent with how rates are set in the

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<sup>2</sup> Order, *Application of Virginia-American Water Company, For an increase in rates*, Case No. PUE-2010-00001, 2011 S.C.C. Ann. Rep. 316 (Jul. 29, 2011) ("2010 Order").

<sup>3</sup> Order Granting Authority, *Joint Petition of Virginia-American Water Company and Dale Service Corporation, For approval of a change of control*, Case No. PUE-2013-00050, 2013 S.C.C. Ann. Rep. 409 (Oct. 30, 2013); Order Granting Approval, *Joint Petition of Virginia-American Water Company and Dale Service Corporation, For approval of a change of control pursuant to the Utility Transfers Act, Va. Code § 56-88 et seq. and the Affiliates Act, Va. Code § 56-76 et seq.*, Case No. PUE-2014-00053, 2014 S.C.C. Ann. Rep. 445 (Aug. 27, 2014).

Company's other Districts, establish new rates for the Prince William Wastewater District based on the rate base/rate of return methodology rather than the debt service coverage methodology previously used to set rates for Dale Service.

12. In addition to consolidating customer service and other efforts, the Company intends to combine the bills for customers in the Prince William Water District and the Prince William Wastewater District. This will reduce the number of bills that the customer receives and results in reduced administrative costs as one monthly bill is generated and one payment is processed for these related services. As part of this transition, customers in the Prince William Wastewater District, who currently are billed quarterly and in advance of receiving service, will be billed monthly after they receive the service. Moreover, for those customers with metered water service, VAWC is proposing that wastewater bills reflect actual usage based on water consumption rather than the current flat rates based on general usage levels.

13. The Company has made significant investments in improving the service and reliability in the Prince William Wastewater District. These efforts include investment in better equipment to monitor the condition of the wastewater system and identify sources of inflow and infiltration, root damage or capacity issues due to grease build-up; the hiring of an in-house operations staff thereby reducing dependence on more expensive outside contractors, and other investments described by Company witness Sufleta. These investments have resulted in significant benefits to the customers of the District. Based on these benefits the Company seeks recognition by the Commission of a ten year amortization of the acquisition costs of Dale Service in excess of rate base and inclusion in the rate base of the unamortized balance of that cost.

### Changes to the Company's Rules and Regulations

14. In addition to the increases and other changes to existing rates, the Company intends to make a number of changes to its Rules and Regulations, as described and attached to the testimony of Company witness Sufleta. These changes primarily involve the combination of the existing Rules and Regulations applicable to water service and the rules and regulations applicable to wastewater service. This will simplify and streamline the Company's Rules and Regulations in its tariff and reduce any potential confusion for customers due to having multiple rules and regulations.

15. In addition to making the Rules and Regulations applicable to both water and wastewater customers as appropriate, the Company proposes the following additional changes to its Rules and Regulations: (1) a new section regarding controls on substances disposed of into the sewer system, (2) the addition of sewer collections system with a refund mechanism under the rule for the extension of mains, (3) the ability to shut off water service if either the water or sewer bill is not paid and associated fees, (4) the customer's responsibility to maintain their sewer plumbing system so we can perform routine operations and maintenance work, and (5) new water system cross connection control language.

### Water and Wastewater Infrastructure Service Charge ("WWISC")

16. As a public service company in Virginia, VAWC is obligated to provide safe and reliable service to its customers and to have adequate distribution, treatment and production facilities to furnish this service. *See* Sections 56-234 and 56-261 of the Code of Virginia ("Code"). Much of the water infrastructure in significant parts of the Company's service territory, and indeed throughout Virginia and the country, was installed during the first half of

the last century or earlier and is quickly approaching the end of its useful life, if it has not already done so. Indeed even newer water and wastewater systems that have been installed since 1960 have been in service for over 50 years, and in some cases were installed by developers using lower grade material and less-stringent construction methodologies than those typically used by water and wastewater utilities.

17. This filing reflects the fact that the Company has made substantial investments in its infrastructure throughout its system, including significant efforts to replace mains and other aging infrastructure that have reached the end of their useful lives. These efforts, however, have only amounted to a 0.32% annual replacement rate. In other words, it would take nearly 300 years to replace the Company's entire system even though much of this infrastructure is already at or near the end of its useful life. This is far below the industry's and the Company's goal to reach a 100 year replacement rate in order to ensure that it can minimize failures and associated interruptions to service from facilities that have exceeded their useful life.

18. The investment required over the last few years to meet even this lower than optimal replacement rate has necessitated the increased rates reflected in this Application. If the Company is to continue the infrastructure investment required to meet the needs described in the testimony of Company witness O'Brien, it will result in the need for even larger and more frequent base rate increases in order to ensure that the Company begins recovering this investment and has access to additional capital necessary for additional infrastructure investment.

19. In order to meet the need to invest in replacing aging infrastructure and other investments in its system that do not generate additional revenue for the Company, Virginia-American proposes to establish a WWISC that will allow it to better plan for and to begin to recover its investment on a timely basis. This mechanism will help ensure that customers are not



subject to large rate increases and that recovery of this needed investment occurs gradually. Without the WWISC, the recovery of these investments would require the preparation and filing of continuous base rate cases, such as the current Application, and would represent a significant investment by VAWC in both time and expense as such cases require a review of nearly every aspect of the Company's operations. Such a process also requires significant effort for the Commission to review and rule upon these more frequent base rate cases. Instead, recovering these costs through the Company's proposed WWISC mechanism will ensure that the Commission continues to exercise the same or greater level of review of the Company's investments and their incorporation into rates, but through a much more streamlined and focused process that will ultimately lead to comparatively smaller and more gradual increases in rates for customers while recovering the costs associated with these necessary investments.

20. Company witness Gary Akmentins presents the Company's proposed tariff for the WWISC and discusses how this rate will be calculated. Mr. Akmentins also outlines the procedures that the Company proposes for the Commission's review of the WWISC, including the Company's proposed annual true-up of WWISC collections to ensure that the Company is not over-recovering its investment from customers. The Company has included significant amounts of infrastructure investment in the increased rates proposed in this Application. Accordingly, the Company asks that the Commission approve the proposed WWISC to be effective April 1, 2017, following the close of the rate year used in this Application. No investments that are incorporated into the Company's base rate increase will be included in the proposed WWISC.

### Revenue Stabilization Mechanism (“RSM”)

21. The Company’s business consists predominantly of fixed costs that do not vary with usage. In fact, approximately 88% of the Company’s costs are fixed costs. Under the Company’s present rate structure, however, only approximately 28% of its revenues are fixed, while approximately 72% of its revenues are variable. This creates a clear mismatch that makes the Company’s ability to generate sufficient revenue to provide safe and reliable service dependent on its customers’ usage and weather patterns.

22. Virginia-American has seen a continued and persistent trend of declining usage per customer. The resulting reductions in water sales have been a source of fiscal stress for Virginia-American, and are a potential disincentive to further investment in efficiency. This problem is exacerbated by the fact that water supply in general is a rising-cost industry. At the same time, efficient use and reduced consumption of water is a public policy goal in the Commonwealth and throughout the country and is supported by the Company.

23. The Company proposes to implement an RSM that will remove this disincentive to promote water efficiency and will support revenues for continued water efficiency investments by the Company. This mechanism will protect both the Company and the customer from the effects of weather on the ability of the Company to recover its fixed costs and assure that the Company will collect its base revenue requirement for fixed costs notwithstanding a declining per capita use of water service. Ultimately, this will ensure that VAWC can focus on its fixed investments and making improvements to promote and support the efficient use of water throughout its system and minimize the need to file costly rate cases driven by declining water usage.

24. The proposed RSM will function by comparing the actual net revenues (operating revenues less applicable production costs) for the preceding year with the net revenue target as established by the Commission in this proceeding. Any difference would either be credited to the customer or recovered by the Company through a surcharge applied to customer bills. The RSM will begin to monitor the Company's net revenues as of the beginning of the rate year (April 1, 2016) with an adjustment to be filed in mid-2017 based on the net revenues in the rate year.

#### Conclusion

25. This Application is filed in accordance with the provisions of Article 2 of Chapter 10 of Title 56 of the Code of Virginia and the Commission's rules applicable to general rate increases, 20 VAC 5-201-10 *et seq.*

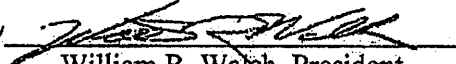
26. The Company's proposed rates reflect an effective date of April 1, 2016 and Virginia-American requests that the Commission allow it to place these rates into effect on this date on an interim basis, subject to refund, until the Commission issues its final order in this proceeding.

WHEREFORE, the Company requests that (i) it be permitted to place its proposed rates into effect on April 1, 2016 on an interim basis, subject to refund; (ii) the Commission order appropriate notice be given and set this Application for hearing; (iii) after such hearing the Commission affirm the justness and reasonableness of the proposed rates on a permanent basis; (iv) the Commission approve the proposed changes to VAWC's Rules and Regulations; (v) approve the proposed WWISC to be effective April 1, 2017; and (vi) approve the proposed RSM to be effective April 1, 2016.

Respectfully submitted,

VIRGINIA-AMERICAN WATER COMPANY

Dated: October 30, 2015

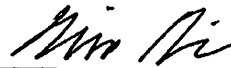
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**CERTIFICATE OF SERVICE**

I hereby certify that on this 30<sup>th</sup> day of October, 2015, a copy of the foregoing Application was either delivered by hand or mailed, first-class postage prepaid, to William H. Chambliss, Esq., State Corporation Commission, Office of General Counsel, Tyler Building, 10<sup>th</sup> Floor, Richmond, Virginia 23219; and C. Meade Browder, Jr., Esq., Office of the Attorney General, 900 East Main Street, 2<sup>nd</sup> Floor, Richmond, VA 23219.

A handwritten signature in black ink, appearing to read "M. H. [unclear]", is written above a horizontal line.