



Legislation Text

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File #: 24-1805, Version: 1

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City of Alexandria, Virginia

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MEMORANDUM

DATE: FEBRUARY 6, 2024

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

THROUGH: JAMES F. PARAJON, CITY MANAGER /s/

FROM: CHERAN IVERY, CITY ATTORNEY  
RYAN FREED, CLIMATE ACTION OFFICER

**DOCKET TITLE:**

Consideration of Virginia American Water Company's Proposed 29% Overall Rate Increase.

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**ISSUE:** Consideration of Virginia American Water Company's ("VAWC") proposed 29% overall rate increase.

**RECOMMENDATION:** That City Council support City staff to (1) minimize the unreasonable magnitude of the proposed water rate increase for Alexandria's residents and businesses, including opposing VAWC's 29% overall rate increase by intervening as a respondent in the recently docketed case, retaining outside counsel and experts to oppose the increase and (2) as appropriate, oppose any additional unreasonable requests by VAWC's rate increase application.

**BACKGROUND:** On November 1, 2023, VAWC filed an application with the State Corporation Commission ("SCC") requesting an increase in allowable revenues and to increase customer rates, claiming the increase is needed to cover major capital investments in its system (\$19 million) and to provide a greater rate of return on common equity (10.95%). In its rate increase application, VAWC proposes the following to its Alexandria residential and business customers:

- An increase in annual water service rates of approximately \$19.7 million, or approximately 29% across all their service districts (including Alexandria, Prince William, Hopewell, Eastern Shore).
- A 10.95% proposed Rate of Return on Common Equity.
- A new process that would cause water rates to be adjusted automatically each year based on VAWC's revenue in the prior year. For example, if VAWC's revenue was less than expected in 2025, a surcharge would be added to customers' bills in 2026 to make up the difference.

- New programming to subsidize water service for certain low-income households.
- A consolidated service connection fee service charge of \$2,000 for ¾" service lines.

This is the second application that VAWC has filed since an increase was granted in 2021. Of note, since the filing of the last application, VAWC has been acquiring smaller water systems. They have acquired 17 to date and are in the process of acquiring Cape Charles' system.

As you may recall, in November 2021, VAWC filed an application seeking a 28% increase in rates, along with other requests. The City opposed that application (as it did with previous applications) and the Commission rejected VAWC rate increase in part and ordered that VAWC refund \$419,803 to Alexandria customers, together with revenues collected from the WWISC.

Now within a two-year period, VAWC has filed another application seeking a 29% increase which is unreasonable on its face.

If the SCC were to grant VAWC's request for a rate increase, an Alexandria residential customer with average water usage would see their monthly water bills increase by about 30%. Residents with low water usage would see increases of at least 20%, whereas residents with above-average usage could see monthly bill increases exceeding 50%. The hearing in this case starts on September 24, 2024. The hearing officer has allowed VAWC to implement the proposed rates on May 1, 2024, on a provisional basis, pending a final decision by the Commission. Accordingly, the proposed rates would take effect on May 1, 2024, on an interim basis, and any differences between the proposed and approved rates would be subject to credit or charge as appropriate.

**NEXT STEPS:** The SCC has issued a Notice of Order and Hearing on December 14, 2023 (we were served with the Notice on January 19, 2024). A hearing is scheduled to start on September 24, 2024.

The City is seeking authorization to participate in this proceeding as a respondent and to retain outside counsel and experts. As a respondent in this proceeding, the City can represent the Alexandria community's best interests by propounding discovery, filing expert testimony, cross-examining VAWC and other participating witnesses, responding to briefs, orders, and rulings, as appropriate.

Should other jurisdictions participate - i.e. City of Hopewell, Prince William County and Prince George County - where there is alignment in priorities, the City will seek opportunities for partnership.

In addition to the City's proposed participation as a respondent, members of the Alexandria community are encouraged to submit comments to the SCC reflecting their desired outcome of this proceeding at URL; <http://www.scc.virginia.gov/casecomments/submit-public-comments>. The Alexandria community may submit comments until September 18, 2024.

**FISCAL IMPACT:** Fiscal impacts to the City of Alexandria are as follows:

1. No anticipated changes to rates for water use by the City of Alexandria's government.
2. The City's intervention in the rate case requires outside legal counsel and retention of expert witnesses. Based on previous experiences intervening in VAWC rate cases, we estimate these direct costs to be between \$50,000 to \$75,000.

**STAFF:**

Emily A. Baker, Deputy City Manager

Karen S. Snow, Senior Assistant City Attorney

Adriana Casteneda, Director, Department of Transportation and Environmental Services

Lalit Sharma, Deputy Director Development and Right-of-Way Services