



Legislation Text

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File #: 14-5077, Version: 1

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City of Alexandria, Virginia

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MEMORANDUM

**DATE:** APRIL 6, 2016

**TO:** THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

**FROM:** MARK B. JINKS, CITY MANAGER /s/

**DOCKET TITLE:**

Consideration of Virginia-American Water Company's proposed rate increase (Pue-2015-00097).

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**ISSUE:** Consideration of Virginia-American Water Company's proposed rate increase.

**RECOMMENDATION:** That City Council: (1) indicate its opposition to Virginia-American Water Company's proposed general rate case application (PUE-2015-00097) that seeks a 18.42 percent overall increase, with a 15.86 percent increase in rates in the company's Alexandria District; (2) indicate its opposition to Virginia-American Water Company's proposed Water and Wastewater Investment Service Charge (WWISC), Rate Stabilization Mechanism (RSM), and the consolidation of revenues and application of single tariff; and (3) support City participation in the State Corporation Commission rate deliberations through coordination with legal counsel and expert witnesses in partnership with the City of Hopewell and Prince George County, with City staff providing supplemental involvement and testimony as applicable.

**DISCUSSION:** On October 30, 2015, the Virginia-American Water Company (VAWC) - a subsidiary of American Water Works Company (NYSE: AWK) - submitted an application to the State Corporation Commission (SCC) to petition for an increase in allowable revenues and to increase customer rates (SCC assigns Case Number PUE-2015-00097).

VAWC seeks an 18.42 percent overall increase in rates across all service districts. To support their increase in allowable revenues, VAWC proposes a Rate of Return on Common Equity (ROE) of 10.75%. The effect is an increase in allowable revenues from Alexandria customers of \$2,326,882 or 15.86% over current. The result is an increase in rates of approximately 22.86%, 12.31%, and 6.27% to residential, commercial, and industrial customer classes, respectively. While the increased capital investment by VAWC in the Alexandria District is warranted and needed, and some rate increase is justifiable, staff believes that the proposed rate increase is significantly high. Under SCC rules, the proposed rates may take effect April 1, 2016, subject to refund with

interest should the SCC later determine that a lower rate increase or no rate increase is appropriate.

VAWC petitions the SCC for an increase in allowable revenues and to increase customer rates for two primary reasons. First, four years have passed since the SCC approved VAWC's current base rates (PUE-2011-00127). In those four years, VAWC states they have made ongoing, significant capital investments while effectively reducing operations and maintenance costs. VAWC claim's such significant capital investment increases VAWC earning requirements and requires an increase in allowable revenues and rates charged to customers. Second, placing significant capital investment aside, VAWC claims it is virtually impossible for them to achieve allowable revenues due to declining water use per customer and the revenues received according to current rates.

In addition to petitioning the SCC for an increase in allowable revenues and to increase customer rates, VAWC also advances a Water and Wastewater Investment Service Charge (WWISC), a Rate Stabilization Mechanism (RSM), and the consolidation of revenues and application of single tariff ("rate consolidation"). The WWISC, RSM, and rate consolidation - individually and in combination - will further increase Alexandria's water rates. In 2014, VAWC proposed rulemaking for the WWISC (PUE-2014-00066) which the City successfully opposed.

City staff has reviewed VAWC's rate case application and recommends the City Council oppose VAWC's proposed 18.42 percent overall increase and 15.86 percent increase in Alexandria. Moreover, City staff recommend City Council oppose Virginia-American Water Company's proposed Water and Wastewater Investment Service Charge (WWISC), Rate Stabilization Mechanism (RSM), and the consolidation of revenues and application of single tariff. In prior years, the City has supplied comments in opposition to VAWC's proposed rate increases. However, given the increased complexity of this rate case as compared to past rate cases, City staff recommend support of the City's participation as a Respondent in the SCC process.

As a Respondent, the City is able to represent the best interests of the Alexandria community through the ability to perform and review discovery, file testimony, cross-examine VAWC and other participating witnesses, respond to briefs, orders, rulings, etc. Due to the specialized nature of the issues presented in this water rate case, the City is partnering with the City of Hopewell and Prince George County for outside legal counsel from Sands Anderson, PC and the services of a regulatory expert witness. City staff from the City Attorney's Office and the Department of General Services will provide supplemental legal involvement and testimony as applicable. City staff are already coordinating regulatory expert witness testimony responses in partnership with the City of Hopewell and Prince George County.

The case schedule is shown below. The City Attorney's Office filed Notice of Participation as Respondent on February 5, 2016. The City and partners' outside counsel, regulatory expert witness, and City staff are currently preparing testimony for submission to the SCC on or before April 22, 2016.

<u>Activity</u>	<u>Date</u>
Notice of Participation	02/05/2016
Pre-filed Testimony	04/22/2016
Pre-filed SCC Staff Testimony	05/20/2016
Rebuttal Testimony	06/03/2016
Comments	06/14/2016
Hearing	06/21/2016

In addition to the City's participation as a Respondent on behalf of the City's interests and the interest of the Alexandria community, members of the Alexandria are encouraged to submit comments to the SCC reflecting their desired outcome of PUE-2015-00097 at the following URL:

<http://www.scc.virginia.gov/case/PublicComments.aspx>. Public comments are due no later than June 14, 2016. The Public Hearing will be held on June 21, 2016 at the SCC's offices and courtrooms in Richmond, Virginia.

**FISCAL IMPACT:** If the 18.42 percent rate increase is approved, Alexandria customers will experience a 15.86 percent increase in water rates. The result is an increase in rates of approximately 22.86%, 12.31%, and 6.27% to residential, commercial, and industrial customer classes, respectively. For City government operations, the estimated increase in water costs would be about \$60,000 per year.

**STAFF:**

Laura Triggs, Deputy City Manager

James L. Banks, City Attorney

Jeremy McPike, Director, Department of General Services

Karen Snow, Assistant City Attorney

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