

COMMONWEALTH OF VIRGINIA

0311 2 0241

STATE CORPORATION COMMISSION DOCUMENT CONTROL

AT RICHMOND, NOVEMBER 14, 2003

APPLICATION OF

2003 NOV 14 P 4:27

VIRGINIA-AMERICAN WATER COMPANY

CASE NO. PUE-2002-00375

For a general increase in rates

FINAL ORDER

On June 24, 2002, Virginia-American Water Company ("Virginia-American" or "Company") filed with the State Corporation Commission ("Commission") an Application for a general increase in rates ("Application"). In its Application, Virginia-American sought to increase annual operating revenues for the Hopewell District by \$872,320 and for the Alexandria District by \$238,349. The Company proposed no increase for the Prince William District.

By order dated July 18, 2002, the Commission issued its Order for Notice and Hearing in which it permitted the proposed rates, which were designed to increase annual operating revenues by \$1,110,669, or approximately 3.7 percent, to become effective November 22, 2002, subject to refund. The City of Hopewell ("City"), the Hopewell Committee for Fair Water Rates ("Committee"),¹ and Prince George County protested the Application. The City and the Committee asked the Commission to dismiss the Application on grounds that the Company's failure to reflect the lost sales constituted a violation of the Commission's Rules Governing Utility Rate Increase Applications and Annual Information Filings.

Alexander F. Skirpan, Jr., Hearing Examiner, held an evidentiary hearing on December 20, 2002. The Hearing Examiner issued his report on May 14, 2003. The Hearing Examiner recommended no increase for the Alexandria and Prince William Districts, and found

¹ The Hopewell Committee for Fair Water Rates is comprised of Goldschmidt Chemical Company, Hercules Incorporated, Honeywell, Hopewell Cogeneration Facility, James River Cogeneration, PraxAir, Inc., and Smurfit-Stone Container.

that the Hopewell District required \$950,444 in additional gross annual revenues. However, because the notice for the Hopewell District provided for an increase of \$872,320 in additional gross annual revenues, the Hearing Examiner recommended that the increase in annual revenues for the Hopewell District be limited to that amount. The Hearing Examiner recommended that the Commission adopt the adjustment made by Commission Staff ("Staff") to the revenue requirement for the Hopewell District to make up for the loss of sales to a large customer of the Hopewell District that the Company failed to reflect in its application. In establishing rates, however, the Hearing Examiner's recommendation did not provide for a decrease in the billing determinants to adjust for the loss of sales.

On September 3, 2003, the Commission entered its Order on Hearing Examiner's Report ("Order"). The Commission found that the calculation of the revenue requirement for the Hopewell District should not include the lost sales. The Commission found that the increase in rates charged by Virginia-American for its Hopewell District should be limited to the amount that would have been allowed if Virginia-American's requested revenue requirement for the Hopewell District (including the revised schedules to its Application filed by the Company on July 8, 2002) had not been adjusted for the lost sales, but otherwise had been adjusted to reflect the recommendations regarding the cost of equity and other adjustments in the Hearing Examiner's Report. The rates required to recover this amount of additional gross annual revenue were directed to be set based on billing determinants without excluding the customer to whom the lost sales were attributable. The Commission remanded the proceeding to the Hearing Examiner to determine, with respect to the amount of additional gross annual revenues for the Hopewell District, the Company's: (i) test year operating revenue deductions, after all adjustments, (ii) test year adjusted net operating income, after all adjustments, (iii) the return

produced on adjusted rate base by current rates, (iv) return on equity produced by current rates, and (v) adjusted test year rate base.

On September 5, 2003, the Hearing Examiner entered a ruling that directed Staff to file the required information to reflect the findings of the Commission's Order.

On September 17, 2003, Staff filed its revised schedules, which show a revised annual revenue requirement increase for the Hopewell District of \$646,989. This sum represents a decrease of \$225,331 from the \$872,320 revenue increase requested by Virginia-American.

On September 30, 2003, the Company and the Committee filed responses and comments on Staff's revised schedules. The Company concurred with the Staff's revised schedules and pledged to design rates on the basis of an annual revenue requirement for the Hopewell District of \$646,989 and to submit the revised proposed tariffs to Staff for its review. The Company also requested that it be granted four billing months to complete the refund process.²

The Committee's response supported making the Staff's revised schedules part of the record in the case. The Committee urged the Commission to allocate the \$225,331 revenue decrease between the residential/commercial classes and the industrial class in the same manner that the revenue increase was allocated by Virginia-American (32.7 percent of the decrease, or \$73,683.24, being allocated to the residential/commercial classes and 67.3 percent, or \$151,647.76, would be allocated to the industrial class.³ The City did not file comments.

On October 2, 2003, the Hearing Examiner issued a report recommending that the Staff's revised schedules be made a part of the record in this case, showing a revenue requirement for the Hopewell District of \$646,989, or \$225,331 less than the Company's request of \$872,320.

² Company's Response at 1.

³ Committee's Comments at 1.

He also found that the \$225,331 reduction should be apportioned consistent with Virginia-American's requested revenue apportionment, and the final rate design in this case should be comparable, but less, than Virginia-American's interim rate design.⁴

On October 23, 2003, the Committee filed comments to the Hearing Examiner's report. The Committee supports the basic approach to the apportionment of the refund adopted by the Hearing Examiner, and states that it is appropriate that rates be decreased in the same proportion to which they were increased when the increase is found to be inappropriate. The Committee agrees with the Hearing Examiner's recommendation that the reduction be apportioned so that it is consistent with Virginia-American's requested revenue apportionment, and that rates be comparable, but less, than Virginia-American's interim rate design.

NOW THE COMMISSION, having considered the record, the pleadings, the Hearing Examiner's Report of May 14, 2003, as modified by our September 3, 2003, Order on Hearing Examiner's Report, the Hearing Examiner's Report of October 2, 2003, and the applicable law, is of the opinion and finds that the analysis, findings, and recommendations of the Hearing Examiner's October 2, 2003, Report are reasonable, supported by the record, and will be adopted. The Commission further finds as follows:

- (1) Virginia-American's test year operating revenues, after all adjustments, was \$8,821,197 for the Hopewell District;
- (2) Virginia-American's test year operating revenue deductions, after all adjustments, was \$6,953,568 for the Hopewell District;
- (3) Virginia-American's test year adjusted net operating income, after all adjustments, was \$1,864,319 for the Hopewell District;

⁴ Hearing Examiner's Report at 3-4.

(4) Virginia-American's current rates produce a return on adjusted rate base of 6.699% for the Hopewell District;

(5) Virginia-American's current rates produce a return on equity of 6.243% for the Hopewell District;

(6) Virginia-American's adjusted test year rate base is \$27,828,151 for the Hopewell District;

(7) Based on the record and the Order, Virginia-American requires \$646,989 in additional gross annual revenues for the Hopewell District;

(8) The Company should file permanent rates designed to produce the revenues found reasonable herein using the revenue apportionment methodology discussed herein; and

(9) The Company shall refund, within four billing months, with interest, all revenues collected under its interim rates in excess of the amount found just and reasonable herein.

Accordingly, IT IS ORDERED THAT:

(1) The findings and recommendations of the Hearing Examiner are adopted.

(2) Consistent with the findings herein, and within 30 days following the entry of this order, the Company shall file with the Commission's Division of Energy Regulation a schedule of rates, charges, rules, and regulations designed to produce \$646,989 of additional gross annual revenue for the Hopewell District, which schedule shall bear an effective date of the first day of the first month following the Company's filing of the schedule required by this paragraph. The final rate design shall be comparable, but less, than the Company's interim rate design.

(3) The reduction of \$225,331 in interim rates (which is the difference between the Company's request of \$872,320 and the approved \$646,989 in additional gross annual revenues) for the Hopewell District shall be apportioned consistent with the Company's proposed revenue

apportionment for the Hopewell District and shall be apportioned between potable and non-potable service based upon the revenue responsibility proposed by the Company.

(4) On or before the last day of the fourth month following the entry of this order, the Company shall recalculate, using the rates and charges prescribed by ordering paragraph (2) of this Order, each bill it rendered that used, in whole or in part, the rates and charges that took effect under bond and subject to refund on November 22, 2002. Where application of the rates prescribed by this Order results in a reduced bill, the Company shall refund with interest the difference.

(5) Interest upon the ordered refunds shall be computed from the date payments of monthly bills were due to the date refunds are made, at the average prime rate for each calendar quarter, compounded quarterly. The average prime rate for each calendar quarter shall be the arithmetic mean, to the nearest one-hundredth of one percent, of the prime rate values published in the Federal Reserve Bulletin or in the Federal Reserve's Selected Interest Rates (Statistical Release H.15) for the three months of the preceding calendar quarter.

(6) The refunds ordered herein may be credited to current customers' accounts (each refund category shall be shown separately on each customer's bill). Refunds to former customers shall be made by check mailed to the last known address of such customers when the refund amount is \$1 or more. The Company may offset the credit or refund to the extent no dispute exists regarding the outstanding balance of a current or former customer. No offset shall be permitted for the disputed portion of an outstanding balance. The Company may retain refunds owed to former customers when such refund amount is less than \$1. The Company shall maintain a record of former customers for which the refund is less than \$1, and such refunds

shall be made promptly upon request. All unclaimed refunds shall be subject to § 55-210.6:2 of the Code of Virginia.

(7) On or before the last day of the month following the month during which the Company is required to recalculate the bills for the Hopewell District as required by ordering paragraph (4) of this Order, the Company shall file with the Commission's Divisions of Public Utility Accounting and Energy Regulation a report showing refunds made pursuant to this final order and detailing the costs of the refund and accounts charged. Costs shall include, inter alia, computer costs, and the personnel hours, associated salaries, and costs for verifying and correcting the refunds directed in this Final Order.

(8) This case shall be dismissed from the docket of active cases.

AN ATTESTED COPY hereof shall be sent by the Clerk of the Commission to:

Richard D. Gary, Esquire, and Renata M. Manzo, Esquire, Hunton & Williams, Riverfront Plaza, East Tower, 951 East Byrd Street, Richmond, Virginia 23219-4074; Edward L. Flippen, Esquire, McGuireWoods LLP, One James Center, 901 East Cary Street, Richmond, Virginia 23219-4030; Cliona M. Robb, Esquire, Christian & Barton, L.L.P., 1200 Building, Suite 1200, 909 East Main Street, Richmond, Virginia 23219-3095; H. M. Robertson, Esquire, Prince George County Attorney, P.O. Box 188, Prince George, Virginia 23875; Judith W. Jagdmann, Deputy Attorney General, Office of the Attorney General, 900 East Main Street, Second Floor, Richmond, Virginia 23219; and the Commission's Office of General Counsel and Divisions of Energy Regulation, Economics and Finance, and Public Utility Accounting.

A True Copy
Teste:


Clerk of the
State Corporation Commission