

COMMONWEALTH OF VIRGINIA  
STATE CORPORATION COMMISSION  
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APPLICATION OF

VIRGINIA-AMERICAN WATER COMPANY

CASE NO. PUR-2018-00175

For a general increase in rates

FINAL ORDER

On November 2, 2018, Virginia-American Water Company ("VAWC" or "Company") filed with the State Corporation Commission ("Commission") an application for a general increase in rates ("Application"). On December 3, 2018, January 8, 2019, January 14, 2019, and January 15, 2019, the Company filed various updates and revisions to filing schedules included as part of the Company's Application.

On January 30, 2019, the Commission issued an Order for Notice and Hearing that, among other things, directed the Company to provide notice of its Application by publication and service on local government officials; established a procedural schedule, including a public evidentiary hearing; directed the Commission's Staff ("Staff") to investigate the Application and file testimony and exhibits summarizing Staff's investigation; provided opportunities for interested persons to intervene and participate in this proceeding; and appointed a Hearing Examiner to conduct all further proceedings in this matter.

Timely notices of participation were filed in this proceeding by the Hopewell Committee for Fair Water Rates ("Hopewell Committee"); the City of Alexandria ("Alexandria"); and the Office of the Attorney General, Division of Consumer Counsel ("Consumer Counsel").

The public hearing was convened as scheduled on August 27, 2019, and concluded on August 29, 2019. On November 6, 2019, VAWC, Consumer Counsel, Hopewell Committee, Staff, and Alexandria filed post-hearing briefs.

On January 10, 2020, the *January Report*<sup>1</sup> was issued. The *January Report* made findings and recommendations for the Commission's consideration and established February 11, 2020, as the deadline for the parties and Staff to file comments on the *January Report*.

On February 11, 2020, Staff and VAWC filed a Joint Motion to Re-Open Record for the Limited Purpose of IRS Letter Ruling Supplementation and to Extend Deadline for Comments on the Hearing Examiner's Report ("Motion to Re-Open"). The uncontested Motion to Re-Open<sup>2</sup> requested that the Commission: (1) extend the deadline to file comments on the *January Report* to February 27, 2020; and (2) reopen the evidentiary record in this case to receive two Private Letter Rulings ("PLRs") issued by the IRS and the impact of the PLRs on the Hearing Examiner's Report as to the repairs deduction issue.

On February 11, 2020, the Commission issued its *Remand Order*<sup>3</sup> that: (1) suspended the deadline to file comments on the *January Report*; and (2) remanded this matter to the Hearing Examiner for consideration on reopening the record in this proceeding for purposes of entering the PLRs and comments on the impacts thereof.

On February 12, 2020, the Office of Hearing Examiners requested the parties and Staff

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<sup>1</sup> *Application of Virginia-American Water Company, For a general increase in rates*, Case No. PUR-2018-00175, Doc. Con. Cen. No. 200110198, Report of D. Mathias Roussy, Jr., Hearing Examiner (Jan. 10, 2020) ("*January Report*").

<sup>2</sup> VAWC and Staff requested - and Consumer Counsel, the Committee, and Alexandria did not object to - entry of the PLRs into the record. Motion to Re-Open at 3.

<sup>3</sup> *Application of Virginia-American Water Company, For a general increase in rates*, Case No. PUR-2018-00175, Doc. Con. Cen. No. 200220039, Order (Feb. 11, 2020).

provide their availability for a conference call to discuss what, if any, further proceedings should be scheduled regarding the PLRs. Counsel for VAWC advised that such a call would be more productive if VAWC first provided relevant information to the parties and Staff and they had the opportunity to exchange their respective views on impact. After this preliminary exchange of information and views, counsel for all parties and Staff participated in a call with the Hearing Examiner on February 24, 2020.

On February 25, 2020, and based on the results of the aforementioned call in which Staff and the parties remained in disagreement regarding the PLR impacts, a Hearing Examiner's Ruling reopened the matter for limited discovery with an expedited response period and directed Staff to investigate the impact of the PLRs. The February 25, 2020 Ruling also provided the parties and Staff the opportunity to determine whether they could agree on a proposed procedural schedule to develop this limited issue in a thorough, but expeditious, manner. Based on the agreement of the parties and Staff, a procedural schedule was adopted by Hearing Examiner Ruling dated March 9, 2020. Among other things, a hearing was scheduled for June 11, 2020.

On March 13, 2020, VAWC filed the supplemental direct testimony of John R. Wilde.

On April 14, 2020, Consumer Counsel filed the supplemental direct testimony of Ralph C. Smith.

On April 14, 2020, Staff filed the second supplemental direct testimonies of Bryant Wong and Samuel Mattox.

On April 20, 2020, VAWC filed its Notice Regarding Interim Rates where the Company stated "prior to issuance of a Final Order by the Commission in this matter, the Company will not implement changes to the interim rates it put in place effective May 1, 2019, to reflect the rate changes associated with year two . . . of its proposed consolidated tariff pricing . . . plan,

which were originally proposed to take effect on May 1, 2020."<sup>4</sup> On April 24, 2020, Staff filed a letter stating it supports maintaining the current interim rates.

On May 4, 2020, VAWC filed its Motion for an Extension of Time to File Rebuttal Testimony and for Expedited Consideration, asking for a one-day extension to file its rebuttal testimony. The Company's motion was granted in a Hearing Examiner's Ruling dated May 4, 2020.

On May 5, 2020, VAWC filed the supplemental rebuttal testimony of John R. Wilde.

On May 29, 2020, a Hearing Examiner's Ruling scheduled a prehearing conference via Skype for Business ("Skype") for June 3, 2020. Due to the ongoing public health emergency related to the spread of the coronavirus, COVID-19, the hearing in this matter originally scheduled in the Commission's courtroom would be conducted via Skype, with no one present in the courtroom. The prehearing conference was called to prepare for the Skype hearing and to establish procedures to be used during the hearing.

Based on the discussions during the prehearing conference, a Hearing Examiner's Ruling dated June 8, 2020, cancelled the hearing scheduled for June 11, 2020, provided for the filing of a stipulation on or before June 18, 2020, and permitted parties not joining the stipulation to file additional comments on or before June 25, 2020.

On June 18, 2020, VAWC, Staff, Consumer Counsel, and Alexandria (collectively, "Stipulating Participants") submitted a Partial Stipulation of Settlement ("Partial Stipulation") regarding the evidence to be entered into the record in this proceeding and resolving issues related to the Company's Application. In addition, the Stipulating Participants filed a Joint Motion to Approve Stipulation.

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<sup>4</sup> Notice Regarding Interim Rates at 1.

The Partial Stipulation resolved almost all of the outstanding issues in this case<sup>5</sup> and provided, in part: (i) a *net* Revenue Requirement increase of \$150,000;<sup>6</sup> (ii) a \$182,899,755 rate base as proposed in the *January Report*;<sup>7</sup> (iii) a 9.6% WWISC<sup>8</sup>/Earnings Test ROE (until reset in the next rate case);<sup>9</sup> (iv) adoption of the *January Report* recommendations for the 2017/2018 Earnings Tests;<sup>10</sup> (v) a regulatory liability (stub period/catch-up period and TCJA<sup>11</sup> revenue savings) of \$3,711,250<sup>12</sup> (with basis revisions and 8 years amortization) on all unprotected items, given back over 24 months;<sup>13</sup> (vi) consolidation of rates<sup>14</sup> over three rate cases, starting in this case, with the implementation of the rates set forth in Attachment A to the Partial Stipulation, with the Company filing district level financial information until such time as rates are fully consolidated and any excess charges to customers collected through interim rates in effect during the pendency of this case will be credited to customers in a timely manner;<sup>15</sup> (vii) express

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<sup>5</sup> The Stipulating Parties agreed to present to the Commission for resolution, the issue of the Company's Annual Information Filing and Earnings Test Capital Structure. *See* Partial Stipulation at 4.

<sup>6</sup> Partial Stipulation at 4.

<sup>7</sup> *Id.* at 6.

<sup>8</sup> "WWISC" stands for Water Wastewater Infrastructure Service Charge.

<sup>9</sup> *Id.* at 4.

<sup>10</sup> *Id.*

<sup>11</sup> "TCJA" refers to the Tax Cuts and Jobs Act of 2017 (Pub.L. 115-97).

<sup>12</sup> The \$3,711,250 is comprised of a grossed-up jurisdictional catch-up period EDIT amortization of \$1,411,677 and jurisdictional excess revenues collected during the catch-up period (the stub period amount) of \$2,299,573. (*Id.*).

<sup>13</sup> Partial Stipulation at 4.

<sup>14</sup> Pursuant to Va. Code §56-235.11, which requires "gradual adjustments" over an "appropriate period" to establish "equal fixed and volumetric rates" for each customer class. (*Id.* at 5).

<sup>15</sup> Partial Stipulation at 5.

agreement by the Stipulating Parties, with the *January Report*, that "rates"<sup>16</sup> include the Purchased Water Surcharge ("PWS"), and that one-third of the purchased water costs shall be allocated across all potable customers, in all districts, as an appropriate step towards PWS consolidation, with the remaining two-thirds of the PWS costs collected via the surcharge from potable customers in the Alexandria and Prince William districts and use of a water cost adjustment charge/credit for changes in rates charged by Fairfax Water<sup>17</sup> along with a reconciliation tracker "actual cost adjustment" to annually true-up all PWS under and over collections;<sup>18</sup> (viii) revision of the Company's tariff to include Company expenditures related to the replacement of customer owned lead service lines in the Company's rate base and acknowledgement that customer-owned lead service lines will be considered WWISC eligible property, with the requirement that the Company continue to utilize Virginia Department of Environmental Quality grants to the extent available to offset customer-owned lead service line costs;<sup>19</sup> (ix) agreement by the Stipulating Parties to not oppose the Company's geographic expansion of its WWISC company-wide, with all parties reserving the right to evaluate and comment on the components of any future WWISC proposals, other than geographic scope, with Staff and the Company agreeing to work together prior to a Company-wide WWISC filing to make sure all necessary information (i.e., pilot program results) is included in the initial filing.<sup>20</sup>

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<sup>16</sup> As contemplated by Va. Code § 56-235.11.

<sup>17</sup> "Fairfax Water" refers to the Fairfax County Water Authority; VAWC's source for purchased water. (Direct Testimony of Gary Akmentins at 15).

<sup>18</sup> Partial Stipulation at 5-6.

<sup>19</sup> *Id.* at 6.

<sup>20</sup> *Id.*

On June 25, 2020, the Hopewell Committee filed its Comments in Opposition to Partial Stipulation of Settlement ("Stipulation Opposition"). The Hopewell Committee objected to the 1/3 PWS allocation on reasonableness grounds, arguing that a 1/3 allocation, over three rate cases, was not "gradual"<sup>21</sup> against the Hopewell Committee industrial customers.<sup>22</sup> The Hopewell Committee instead argued that the Commission should reduce the 1/3 PWS allocation to the Hopewell and Eastern districts (allocated across all customers in this case) to 1/6, reflect the percentage of purchased water costs to be allocated across all customers by the end of the second case is not being predetermined in this case, and require the Company's next rate case shall not be filed any sooner than two years from the Commission's final order in this case.<sup>23</sup> The Hopewell Committee further argued that the Commission should adjust the other volumetric charges such that the percentage increase for each of the volumetric rate blocks, when combined with the purchased water surcharge, is approximately the same (9.5%), keeping the monthly customer/meter charges the same, using the Commission's previously approved, six-block volumetric rate structure for such customers in the Hopewell district.<sup>24</sup>

The Hopewell Committee otherwise did not object to the remainder of the Partial Stipulation.<sup>25</sup>

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<sup>21</sup> Va. Code § 56-235.11 (C).

<sup>22</sup> Stipulation Opposition at 1. *See also, Id.* at 5-6.

<sup>23</sup> *Id.* at 4-5. *See also*, Supplemental Report (*infra.*) at 14.

<sup>24</sup> Stipulation Opposition at 6-7.

<sup>25</sup> *Id.* at 1-2.

On June 29, 2020, the Hearing Examiner's Ruling issued thereon, assigned exhibit numbers and entered into the record, the supplemental testimony by VAWC, Consumer Counsel, and Staff, as well as the Partial Stipulation and Stipulation Opposition.<sup>26</sup>

On July 10, 2020, the Hearing Examiner issued the Supplemental Report of Alexander F. Skirpan, Jr., Chief Hearing Examiner ("Supplemental Report"). In his report, the Chief Hearing Examiner recommended that the Commission enter an Order that adopts the findings in the Supplemental Report and the Partial Stipulation as amended, and dismiss this case from the Commission's docket of active cases.<sup>27</sup> Specifically and as relates to the contested PWS allocation issue, the Chief Hearing Examiner supported the stipulated 1/3 PWS allocation and against Hopewell Committee's recommended 1/6 PWS allocation.<sup>28</sup> He further found and recommended that the Hopewell Committee's recommended rate block approach should be adopted and would "largely eliminate" the claimed disparate billing percentages for the industrial potable water customers by changing each existing volumetric rate block by the same percentage, while not impacting VAWC's overall revenue requirement or the revenues apportioned to industrial customers.<sup>29</sup> The Chief Hearing Examiner recommended denial of the Hopewell Committee's recommendations to alter the Partial Stipulation so as to not predetermine in this case, the percentage of purchased water costs to be allocated in future cases, and to

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<sup>26</sup> June 29, 2020 Hearing Examiner's Ruling at 2-3.

<sup>27</sup> Supplemental Report at 17-18. *See also*, TCJA and Revenue Requirement findings (*Id.* at 15) and PWS findings (*Id.* at 16-17).

<sup>28</sup> Supplemental Report at 17.

<sup>29</sup> *Id.*

require the Company's next case not be filed any sooner than two years from the Commission's final order in this case.<sup>30</sup>

On July 31, 2020, the parties and Staff filed comments and exceptions ("Comments") to the Supplemental Report. While Staff and all of the parties to this case gave general support, to varying degrees, to the Chief Hearing Examiner's recommendations to adopt the Partial Stipulation, the Comments address primarily, the two remaining contested issues: consolidated capital structure and the PWS allocation, both of which will be discussed in turn, below.

**A. CONSOLIDATED CAPITAL STRUCTURE**

In its Comments, VAWC objected to the *January Report* capital structure recommendation that the Commission continue to use the consolidated capital structure it had previously established.<sup>31</sup> The Company reiterated its claims of and requests for, among other things: (i) an alleged 9.25% fixed ROE;<sup>32</sup> (ii) continued write downs using ROEs less than this alleged fixed (9.25%) percentage rendered moot, the prior rate case order;<sup>33</sup> (iii) subsequent earnings tests should be based on the capital structure established in the rate order, without updating for the economic changes that may have occurred subsequent thereto;<sup>34</sup> (iv) discontinued use of the consolidated capital structure due to its loss of discretionary spending<sup>35</sup> and because it constitutes retroactive rate-making in violation of Commission and Virginia

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<sup>30</sup> *Id.*

<sup>31</sup> VAWC Comments at 5.

<sup>32</sup> *Id.*

<sup>33</sup> *Id.*

<sup>34</sup> *Id.* at 7.

<sup>35</sup> *Id.* 12-18.

Supreme Court precedent<sup>36</sup> as the *Hope* and *Bluefield* doctrines establishing the Company's right to a fair return;<sup>37</sup> and (v) use of VAWC's stand-alone capital structure for AIF and earnings test purposes.<sup>38</sup>

The Hopewell Committee, Consumer Counsel, and Alexandria took no position in their respective Comments regarding the capital structure issue.<sup>39</sup>

Staff continued to advocate for use of VAWC's parent company's consolidated capital structure. Staff noted that the Commission, as upheld by the Virginia Supreme Court, has previously decided this issue, and the Company provided no new evidence to support deviation from this prior Commission precedent.<sup>40</sup> Accordingly, and for all of the reasons outlined in Staff's Brief,<sup>41</sup> Staff continued to support its position that American Water Works Company's ("AWWC") consolidated capital structure is appropriate and as such supported the findings contained in the *January Report*.<sup>42</sup> Staff specifically noted the Hearing Examiner's finding that it is AWWC's consolidated capital structure that remains the basis by which VAWC's external capital is evaluated, priced, and obtained from the market; and that VAWC's access to capital is,

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<sup>36</sup> *Id.* at 9-10.

<sup>37</sup> VAWC Comments at 11-12.

<sup>38</sup> *Id.* at 21.

<sup>39</sup> It is worth noting that for reasons mirroring those provided by Staff, the Hopewell Committee supported the Commission's Continued use of American Water's consolidated capital structure. (Hopewell Committee Brief at 9-12).

<sup>40</sup> Staff's Comments at 2.

<sup>41</sup> Staff's Brief at § (V)(A) (pp. 6-12) and § (IX)(B)(3) (pp. 62-70 (*see especially*, pp. 66-69, regarding the Consolidated Capital Structure Issue)).

<sup>42</sup> Staff's Comments at 2.

in large part, discretionary with the parent company.<sup>43</sup> Staff further supported the Hearing Examiner's conclusion that the consolidated capital structure has been established in the record of this proceeding consistent with Commission precedent, and recommended continued use of AWWC's consolidated capital structure for ratemaking purposes.<sup>44</sup>

The Commission endorses the findings of the Hearing Examiner's *January Report*, that the evidence supports a finding for a consolidated capital structure, which remains the basis by which VAWC's external capital is currently evaluated, priced, and obtained from the market.<sup>45</sup> As noted in that *Report*, the Commission first approved a consolidated capital structure for VAWC in 1979, concluding that VAWC "in actuality, is nothing more than an operating division of the parent."<sup>46</sup> We note, as did the Hearing Examiner, that the Commission reached this conclusion after considering, among other things, evidence that VAWC's "capital structure is, in part, discretionary with the parent company."<sup>47</sup> Per VAWC, the discretion held by its parent as to VAWC's capital structure continues through present day.<sup>48</sup>

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<sup>43</sup> *Id.* at 2. See also, *January Report* at 82.

<sup>44</sup> Staff's Comments at 2. See also, *January Report* at 82.

<sup>45</sup> *January Report* at 80.

<sup>46</sup> *Id.* at 80-81. Citing, *Application of Virginia-American Water Company, For an increase in rates*, Case No. 20039, 1979 S.C.C. Ann. Rep. 268, 275, Opinion (May 24, 1979), *aff'd by Virginia-Am. Water Co. v. State Corp. Comm'n*, 220 Va. 541 (1979).

<sup>47</sup> *January Report* at 80-81. Citing, 1979 S.C.C. Ann. Rep. at 274.

<sup>48</sup> *Id.* at 81. (*Citations Omitted*). The Hearing Examiner found that "VAWC's reliance on capital provided at American Water's discretion is underscored by VAWC's assertion that, compared to other affiliates, VAWC is not getting its fair share of 'discretionary capital' from American Water." He further found that "[t]he 'discretion' in this regard is not with VAWC...[r]ather, it is ultimately within American Water's discretion as to where to put its equity and debt capital for discretionary investment."

Based on the record, we find, consistent with the *January Report*, that the consolidated capital structure remains the basis by which VAWC's external capital is currently evaluated, priced, and obtained from the market, and that AWWC has discretion over VAWC's capital structure. Because this evidentiary predicate for a ratemaking consolidated capital structure has been established in the record of this proceeding consistent with Commission precedent, we will continue the use of AWWC's consolidated capital structure for ratemaking and annual information filing/earnings test purposes.<sup>49</sup>

#### **B. PURCHASE WATER SURCHARGE ALLOCATION**

VAWC noted its continued support for the Partial Stipulation<sup>50</sup> and noted that of the eleven industrial customers in the Hopewell District, nine (or 82%) of the Hopewell industrials would have seen their bills reduced by the Partial Stipulation.<sup>51</sup> Additionally, the Company noted its support of the Chief Hearing Examiner's recommendations to modify the rates agreed to in the Partial Stipulation, to retain the prior six-block rate design for industrial potable customers and apply an equal percentage increase across all six rate blocks.<sup>52</sup>

Consumer Counsel supported the Supplemental Report recommendations to allocate 1/3 of the PWS across all districts, adjust the volumetric charge for industrial potable service by the same percentage, to keep the monthly customer/meter charge the same, and to use the

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<sup>49</sup> *January Report* at 82 and 126.

<sup>50</sup> VAWC Comments at 26-27.

<sup>51</sup> *Id.* at 24.

<sup>52</sup> *Id.* at 26-27.

Commission's previously approved, six-block volumetric rate structure for industrial potable water customers.<sup>53</sup>

The Hopewell Committee again reiterated its objections to the 1/3 PWS allocation, noting that while the revenue requirement increase proposed in the Partial Stipulation equates to only 3%, the impact to certain industrial customers is significant, negating the gradualism required by Va. Code § 56-235.11 C 1.<sup>54</sup> The Hopewell Committee also maintained its prior objections to any predetermination of what constitutes gradual movement, the proper time period therefor and future allocations.<sup>55</sup> It again requested a two year stay out provision (rate case moratorium) against VAWC.<sup>56</sup>

Alexandria joined the other stipulating parties in expressing its acceptance in support of the Stipulation, as modified by the Supplemental Report.<sup>57</sup> Alexandria affirmatively stated its support of the 1/3 PWS allocation and strongly objected to the Hopewell Committee's request to drop this allocation to 1/6, noting that such reduction would further increase water rates for tens of thousands of Alexandrians, which would be "an inequitable solution to rate disparities between several members of the industrial class."<sup>58</sup>

Staff supported the Chief Hearing Examiner's recommendation for the 1/3 PWS allocation and to adjust the volumetric service charges for industrial potable service by the same

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<sup>53</sup> Consumer Counsel Comments at 1-2.

<sup>54</sup> Hopewell Committee's Comments at 5-6.

<sup>55</sup> *Id.* at 8.

<sup>56</sup> *Id.* at 9.

<sup>57</sup> Alexandria's Comments at 2.

<sup>58</sup> *Id.* at 1-2.

percentage as each of the volumetric rate blocks; keeping the monthly customer/meter charge the same for industrial potable customers; and maintaining the Commission's previously approved, six block volumetric rate structure for industrial potable water customers.<sup>59</sup>

Having considered the totality of the record evidence in this case and all of the comments of Staff and the parties on this issue, we support the following findings and recommendations made in the Supplemental Report, *to wit*: (i) the PWS allocation to the Hopewell and Eastern districts (allocated across all customers in this case) shall be 1/3; and (ii) the other volumetric charges percentage increase for each of the volumetric rate blocks, when combined with the purchased water surcharge, is approximately the same (9.5%), keeping the monthly customer/meter charges the same and using the Commission's previously approved, six-block volumetric rate structure. In so finding, we agree with the Hearing Examiner that this approach will largely eliminate the claimed disparate billing percentages for the industrial potable water customers by changing each existing volumetric rate block by the same percentage, while not impacting VAWC's overall revenue requirement or the revenues apportioned to industrial customers. With the 1/3 PWS allocation, we balance Alexandria's concern regarding the effects of the PWS on Alexandrians (and for that matter, the Prince William District) by now allocating a portion of the PWS across all customers (thereby continuing to reduce Alexandria's (and the Prince William District's) PWS accordingly)), while at the same time attempting to address Hopwell Committee's concerns by accepting its requested return to the six-block volumetric rate structure.

Finally, the Commission is sensitive to the directives of Va. Code § 56-235. 11 C 1, which gives discretion to the Commission in determining gradual adjustments over an

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<sup>59</sup> Staff's Comments at 1.

appropriate period of time, and we are mindful of the fact that the timing of future cases, after the current proceeding, is relevant, and may impact the Commission's analysis in effectuating the provisions of the instant statute. We will consider such impacts accordingly, in any future rate proceedings.

NOW THE COMMISSION, upon consideration of this matter, is of the opinion and finds that the capital structure findings and recommendations contained in the *January Report*, are hereby adopted. The Commission is further of the opinion and finds that the findings and recommendations of the Supplemental Report are hereby adopted. The Commission is further of the opinion and finds that the Partial Stipulation is reasonable, and as modified by the Supplemental Report and this Order, is hereby adopted. Additionally, the Commission is of the opinion and finds that continued use of AWWC's consolidated capital structure remains appropriate for VAWC's ratemaking and annual information filing/earnings test purposes. We are further of the opinion and find that the 1/3 PWS combined with retention of the industrials prior six-block rate design for potable customers as well as application of an equal percentage increase across all six rate blocks, are fair and reasonable resolution to this issue.

Accordingly, IT IS ORDERED THAT:

- (1) The capital structure findings and recommendations of the *January Report*, are hereby adopted.
- (2) The findings and recommendations of the Supplemental Report are hereby adopted.
- (3) The Partial Stipulation as modified by the Supplemental Report and this Order, is hereby adopted.

(4) Continued use of AWWC's consolidated capital structure remains appropriate for VAWC's ratemaking and annual information filing/earnings test purposes.

(5) The PWS allocation shall be set in this case, at 1/3 across all customer classes and is combined with retention of the industrials prior six-block rate design for potable customers as well as application of an equal percentage increase across all six rate blocks.

(6) The rates and charges approved herein are fixed and substituted for the rates and terms and conditions of service that the Company placed into effect on an interim basis with the first billing unit of May 2019. VAWC shall forthwith file revised tariff sheets incorporating the findings herein on rates and charges and terms and conditions of service with the Clerk of the Commission and the Commission's Division of Public Utility Regulation. The Clerk of the Commission shall retain such filing for public inspection in person and on the Commission's website: <http://www.scc.virginia.gov/case>. Refunds of interim rates shall be made as required below.

(7) The Company shall recalculate, using the rates and charges approved herein, each bill it rendered that used, in whole or in part, the rates and charges that took effect on an interim basis and subject to refund with the first billing unit of May 2019, and where application of the new rates results in a reduced bill, refund the difference with interest as set out below within ninety (90) days of the issuance of this Final Order.

(8) Interest upon the ordered refunds shall be computed from the date payments of monthly bills were due to the date each refund is made at the average prime rate for each calendar quarter, compounded quarterly, using the average 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 (3) months of the preceding calendar quarter.

(9) The refunds ordered herein may be credited to the current customers' accounts. 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 of any undisputed outstanding balance for the current or former customer. No offset shall be permitted against any disputed portion of an outstanding balance. The Company may retain refunds to former customers when such refund is less than \$1; however, such refunds shall be promptly made upon request. All unclaimed refunds shall be subject to Code § 55-210.6:2.

(10) Within sixty (60) days of completing the refunds ordered herein, the Company shall deliver to the Commission's Divisions of Public Utility Regulation and Utility Accounting and Finance a report showing that all refunds have been made pursuant to this Final Order and detailing the costs incurred in effecting such refunds and the accounts charged.

(11) The Company shall bear all costs incurred in effecting the refunds ordered herein.

(12) The Company shall return the \$3,711,250 in regulatory liabilities to customers to reflect the over-collection of income taxes resulting from the federal Tax Cut and Jobs Act of 2017. Such regulatory liabilities will be returned through a monthly bill credit over a 24-month period beginning within 90 days of the issuance of this Final Order. The total credit will be allocated proportionally among the rate classes based on the base revenue approved by the Commission in Case No. PUE-2015-00097.

(13) This matter is dismissed.

A COPY hereof shall be sent electronically by the Clerk of the Commission to: Lonnie D. Nunley, III, Esquire, and Timothy E. Biller, Esquire, Hunton Andrews Kurth LLP, 951 East Byrd Street, Richmond, Virginia 23219; Justin W. Curtis, Esquire, AquaLaw PLC, 6 S. 5th

Street, Richmond, Virginia 23219; Louis R. Monacell, Esquire, and Edward L. Petrini, Esquire, Christian & Barton, LLP, 909 E. Main Street, Richmond, Virginia 23219; Joanna C. Anderson, Esquire, and Karen S. Snow, Esquire, 301 King Street, Room 1300, Alexandria, Virginia 22314; and C. Meade Browder, Jr., Senior Assistant Attorney General, and Katherine C. Creef, Esquire, Division of Consumer Counsel, Office of the Attorney General, 202 N. 9th Street, 8th Floor, Richmond, Virginia 23219-3424. A copy also shall be delivered to the Commission's Office of General Counsel and Divisions of Public Utility Regulation and Utility Accounting and Finance.