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November 15, 2021

FILE NO

BY HAND

Hon. Bernard J. Logan, Clerk
State Corporation Commission
Tyler Building, 1st Floor
1300 East Main Street
Richmond, Virginia 23219

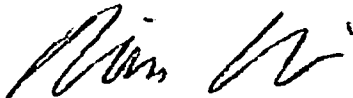
**Re: Application of Virginia-American Water Company
For a general rate increase
Case No. PUR-2021-00255**

Dear Mr. Logan:

In accordance with the Commission's November 8, 2021 Order on Motion ('Order') granting a partial waiver of the filing requirements contained in 20 VAC 5-201-10 I, enclosed please find one, unbound original of Virginia-American Water Company's full Application for an increase in rates. Consistent with the Order, please accept this unbound original as the only paper copy of the Company's Application in this matter. Also as required by the Order, enclosed please find 3 CDs each containing the Company's full Application to provide to the Commissioners' office in connection with this filing.

In addition, Commission Staff and the Office of Attorney General's Office of Consumer Counsel are being provided access to copies of the full Application and electronic spreadsheet versions of the required schedules and associated workpapers through a virtual dataroom. Finally, copies of the Application are being provided to local governmental officials under separate cover, in accordance with 20 VAC 5-201-10 J.

Sincerely,



Timothy E. Biller

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November 15, 2021
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Enclosures

cc: Kiva B. Pierce, Esq.
Kelli Cole, Esq.
C. Meade Browder, Jr., Esq.
Ms. Kimberly B. Pate
Mr. William F. Stephens
Mr. Barry L. Suits
Lonnie C. Nunley, III, Esq.

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COMMONWEALTH OF VIRGINIA
BEFORE THE
STATE CORPORATION COMMISSION

APPLICATION OF)
)
VIRGINIA-AMERICAN WATER COMPANY) CASE NO. PUR-2021-00255
)
)
For general rate relief)

APPLICATION AND TESTIMONY

Filed: November 15, 2021

BEFORE THE
STATE CORPORATION COMMISSION
COMMONWEALTH OF VIRGINIA

APPLICATION OF)
)
VIRGINIA-AMERICAN WATER COMPANY) CASE NO. PUR-2021-00255
)
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 states:

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, Timothy E. Biller, James G. Ritter, and Andrea D. Gardner, Hunton Andrews Kurth LLP, 951 East Byrd Street, Richmond, Virginia 23219-4074.

2. The Company’s current base rates were approved by an Order of the Commission entered November 6, 2020, in Case No. PUR-2018-00175. Those base rates were effective for service rendered on and after May 1, 2019, based on a test period ending June 30, 2018.

Context for the Application

3. The primary driver of this case is ongoing investment in infrastructure. Since the end of the rate year in the last rate case, and through April 30, 2023, the Company will have invested over \$137 million in infrastructure to serve Virginia customers.

4. The Company's management of its operating and maintenance ("O&M") expenses has helped lessen the request for rate relief. In fact, over the past 11 years, VAWC's annual operating costs per customer have increased only 1.34 percent, representing a compound annual growth rate of 0.12 percent.

5. The Company's Application also reflects the continuing impacts of the federal Tax Cuts and Jobs Act of 2017 ("TCJA"), with continued amortization of the excess deferred income taxes ("EDIT") of protected related plant assets using the average rate assumption method ("ARAM") and an 8 year amortization period for unprotected related plant assets. This methodology was approved in the partial stipulation in the last rate case.

The Company's Proposal in this Case

6. The Company seeks a rate increase that would produce additional annual jurisdictional sales revenues of \$14,317,277, or a 27.60% increase over present pro forma revenues. This includes an annual water service rate increase of \$11,565,880, or 27.35%, and a wastewater service rate increase of \$2,751,397, or 28.71%.

7. The Company's proposed weighted cost of capital for the rate year is 6.75%, based on a 10.9% proposed return on common equity ("ROE"), a short-term debt ("STD") cost of 0.34%, a long-term debt ("LTD") cost of 4.09%, and a Job Development Investment Tax Credits ("JDITC") cost of 6.97%, and a capital structure of 40.75 percent common equity, 55.66 percent LTD, 3.27 percent STD and 0.32 percent JDITC, as supported by the testimonies of Company witnesses Ann E. Bulkley and John S. Tomac. Ms. Bulkley testifies that the reasonable range for a return on equity for Virginia-American is from 9.90% to 11.0% and concludes that 10.9% is reasonable and appropriate here. This conclusion is based on her analyses and consideration of the current capital market conditions, the business risk factors for the Company, and the financial

risk attendant to the Company's actual capital structure as compared to the capital structures for the proxy group companies.

8. The Company's proposed capital structure is based on the standalone capital structure for Virginia-American — the appropriate capital structure for setting rates for the Company.

Consolidated Tariff Pricing

9. In 2017, the Virginia General Assembly enacted Section 56-235.11 of the Code, which provides that in any proceeding commenced on and after July 1, 2017, to establish or approve the rates of a water utility¹ in a water utility network, the Commission shall ensure that the rates of each water utility in the water utility network are not unjustly discriminatory by ensuring that equal fixed and volumetric rates are charged for each customer class of each water utility that is in the water utility network.² The statute requires the Commission to order gradual adjustments to such water utility's rates over an appropriate period in order to implement these provisions.

10. Consistent with this requirement, in Case No. PUR-2018-00175, the Company proposed to move all district-specific rates for water service at that time to a consolidated statewide single tariff pricing ("STP") tariff over a three-year period. This approach to achieve statewide STP was to be done in three steps. In the partial Stipulation Agreement approved by the Commission in that case, the parties to the agreement agreed that the consolidation of rates and the movement toward a statewide STP tariff would happen over the course of three general

¹ The definition of "water utility" in section 56-235.11 of the Code includes VAWC.

"'Water utility' means an investor-owned public utility authorized to furnish water or water and sewer service within a certificated service territory in the Commonwealth except any such investor-owned public utility for which the Commission has approved, after July 1, 2009, and prior to July 1, 2017, a consolidated rate structure consisting of three or more rate groups for the same class of service and in one or more subsequent orders has approved additional consolidation of such rate groups."

² 2017 Virginia Acts of Assembly, ch. 822.

rate cases (the first of which being Case No. PUR-2018-00175), not three years. The parties agreed that the Purchase Water Surcharge (PWS) would also move from a surcharge that only applied to Alexandria and Prince William customers to a surcharge that would apply to all customer classes receiving potable water service. The Commission ruled that the movement of the PWS to a statewide surcharge would also occur over three rate cases, the first of which being Case No. PUR-2018-00175.

11. In this case, the Company is proposing consolidated tariff pricing (“CTP”) to make the second step toward STP. As discussed by Company witness Charles Rea, the Company’s proposal is that cost of service results be applied to VAWC’s proposed final rate design in this case to determine a set of water rates that is uniform for each district and recovers the revenue requirement allocated to each customer class in the cost of service study. Target revenues are calculated from those rates for each combination of district and customer class. The Company proposes that all rates be increased by the overall percentage increase granted in this proceeding, with starting revenues by class and district calculated based on those uniformly increased rates, and an adjustment made in each rate to bring revenues for each combination of district and customer class one half of the way from the starting revenue figure to target revenues. In addition, the Company is proposing further consolidation of the PWS as outlined in the Direct Testimony of Scott Grace.

12. The Company’s proposed rate plan would transition the Company to a consolidated rate structure through a reasonable, gradual and consistent methodology in compliance with the requirements of Section 56-235.11 of the Code. Company witness Rea supports this proposal through a consolidated cost of service study.

Revenue Stabilization Mechanism

13. The Company is proposing to implement a Revenue Stabilization Mechanism (“RSM”). The RSM is an automatic rate adjustment clause that will work in a symmetrical manner to ensure that the Company receives, and the customers pay, the revenue level found appropriate in this case; no more and no less. This proposal is in the best interests of all stakeholders, customers, the Company, and the general public, by reducing revenue volatility due to unpredictable weather, unforeseen economic conditions and the continued effect of the COVID-19 pandemic and providing stable cash flows necessary to finance the infrastructure investments to serve the communities in Virginia-American’s service territory. The Company’s proposed RSM is designed to align the Company’s revenues with the level the Commission uses to set rates in this case going forward. The mechanism effectively addresses the unpredictable changes in the volume of water sold due to factors beyond the control of the Company. Currently, the Company uses well established and sound methods to set new rates based on normalized and historical sales to establish pro forma revenue levels. This method, however, cannot precisely predict changes in volumes of water sold due to factors outside of the control of the Company or the Commission. For instance, in a hot, dry summer the Company may sell significantly more water than it does in a wet, cool summer. This leads to significant differences in the Company’s revenue levels from its volumetric rates to recover its costs of providing service, which are predominantly fixed costs. The RSM will ensure that the Company collects the amount of authorized revenues and that customers pay no more or less than the revenue level found appropriate to produce just and reasonable rates. If revenue is higher than expected, the net difference will be credited to customers. Conversely, if revenue is lower than expected, the RSM will make up the net difference to the Company. Once the revenue requirement is set, the

RSM allows the price to flow up or down as sales volumes change in between rate cases. The Company's RSM proposal is supported by Company witness John M. Watkins.

Uncollectibles Automatic Rate Adjustment Clause

14. As discussed in the testimony of Company Witness Mr. Tomac, the impact of the COVID-19 public health emergency, associated economic disruption, and suspension of disconnections has created uncertainty in the current environment as it relates to uncollectibles expense. Because of that uncertainty, and with 2020 and 2021 not being representative of historical or projected activity, the Company feels it is prudent to propose an automatic rate adjustment clause to protect both customers and the Company from expected fluctuations in this expense. The automatic rate adjustment clause will reconcile actual incurred uncollectible expense to the base level established in this rate case, with any variance recovered from (or credited to) customers over a subsequent period.

COVID-19 Regulatory Asset

15. On April 21, 2020, certain utilities in Virginia, including VAWC, filed a letter with the Commission seeking approval to create a regulatory asset to record incremental prudently incurred costs, including:

- 1) the incremental uncollectible expense incurred, 2) late payment fees suspended, 3) reconnection costs incurred with the billing suspended, 4) carrying costs, and 5) other incremental prudently incurred costs associated with the COVID-19 pandemic.³

On April 29, 2020, the Commission issued an order approving the deferral request, stating, “[a]ll natural gas, electric, water and sewer utilities subject to regulation by the Commission may

³ Request for Authority to Create Regulatory Asset at 2, *Commonwealth of Virginia*, ex rel. *State Corporation Commission*, Ex Parte: *Authority to create regulatory asset*, Case No. PUR-2020-00074, (filed April 21, 2020).

record deferral of the above-referenced expenses on their books, subject to the provisions of the Financial Accounting Standards Board's Accounting Standards Codification 980.”⁴ The Commission went on to note that the Order has no ratemaking impact and that the deferred costs may be addressed in future ratemaking proceedings.⁵

16. Since March 2020, the Company has experienced financial impacts attributable to COVID-19, including increased uncollectible expense, incremental operating and maintenance expense, lost revenues associated with suspending late fees and costs related to ensuring that adequate liquidity was available should it have been needed during the public health emergency. Additionally, the Company has recorded savings related to travel and conferences that did not occur due to the public health emergency. The financial impact through September 30, 2021, net of savings, has amounted to \$1,001,873. The Company seeks to recover the jurisdictional portion of these costs over a three-year period. The direct testimony of Company witness Tomac supports this request.

Acquisition of the Waverly Water System

17. On June 24, 2021, the Company filed a petition in Case No. PUR-2021-00090 seeking authority from the Commission to acquire the water system of the Town of Waverly at fair market value pursuant to Virginia Code §§ 56-89 and 56-90 and 20 VAC 5-210-10 *et seq.* (“Waverly Petition”). The Waverly Petition is currently pending before the Commission and is set for hearing on February 22, 2022. Given that the Commission will likely rule on the Waverly Petition prior to any hearing on this application for a general rate increase and the Company

⁴ Order at 3, *Commonwealth of Virginia, ex rel. State Corporation Commission, Ex Parte: Authority to create regulatory asset*, Case No. PUR-2020-00074, 2020 S.C.C. Ann. Rep. 498, 495 (Apr. 29, 2020).

⁵ *Id.*

would intend to close on the acquisition soon thereafter, the Company has included certain adjustments in its proposal in this application to reflect the acquisition of the Waverly water system and the anticipated costs of providing service to Waverly, should the Commission approve the Waverly Petition. As noted in the Waverly Petition, however, the Company has committed to not raise rates for Waverly customers for two years; accordingly, the Company does not seek any adjustment in those rates through this application. Any adjustments to the rates for Waverly customers would be addressed in a future general rate case.

Direct Testimony Supporting the Application

18. The Company's request for rate relief will be supported by the testimonies of the following witnesses, which are filed with this Application:

- Barry L. Suits, President – Provides an overview of the Company's Application and the Company's need for rate relief. In addition, Mr. Suits provides an introduction of other Company witnesses that support this Application and discusses the affordability of the services the Company provides and the efforts that the Company makes in improving the efficiency of its operation as well as the Company's ability to attract capital and the Company's involvement in the communities it serves;
- Casey Allen, Vice President of Operations – Provides an overview of the Company's operations, the Company's efforts and investments to improve water efficiency, and employee staffing levels;
- Kristina E. McGee, P.E., Director of Engineering – Discusses the Company's overall approach to capital management, the Company's capital investments since the last rate case, and the Company's planned capital investments;
- Scott T. Grace, Senior Manager of Rates & Regulatory – Supports the Company's revenue requirement, sponsors Schedules 1 – 50, and supports certain rate adjustments and tariff revisions;
- John S. Tomac, Senior Director of Rates & Regulatory – Discusses rate base and depreciation expense, interest synchronization, capital structure and the earnings test, the Tax Cuts and Job Act, COVID-19 financial impacts, and the Company's proposed uncollectibles automatic rate adjustment clause;

- Harold Walker, III, Consultant – Supports the appropriate working capital allowances that the Company should be afforded an opportunity to earn on as part of its rate base claims;
- James Pellock, Principal Regulatory Analyst – Addresses production expense, insurance other than group expense, tank painting expense, uncollectible expense, charitable contributions, employee related (travel) expense, other miscellaneous expense adjustments, and general (non-income) taxes;
- Patrick L. Baryenbruch, Consultant – Supports the value of Service Company costs;
- Charles B. Rea - Director, Rates & Regulatory for AWWSC – Presents adjustments for residential, commercial and industrial usage for water and wastewater service, calculations for revenues under present rates and proposed rates, class cost of service analysis, rate design proposals, and affordability analyses;
- John M. Watkins, Senior Director of Regulatory Services for AWWSC – Supports the Company’s requested Revenue Stabilization Mechanism (“RSM”); and
- Ann E. Bulkley, Consultant – Discusses the Company’s cost of equity capital, rate of return and capital structure.

Conclusion

19. 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.*

20. The Company’s proposed rates reflect an initial effective date of May 1, 2022, 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.⁶

⁶ While Va. Code §56-238 provides that the Commission “may suspend the enforcement of any and all of the proposed rates, tolls, charges . . . of an investor-owned water utility . . . for a period not exceeding 180 days,” or until May 14, 2022, the Company respectfully requests that the Commission allow the proposed rates to go into effect on May 1, 2022, on an interim basis, subject to refund. This will align with the date that the Company has historically adjusted its

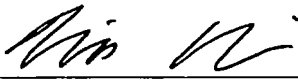
WHEREFORE, the Company respectfully requests that (i) it be permitted to place its proposed rates into effect on May 1, 2022, on an interim basis, subject to refund; (ii) the Commission order appropriate notice be given and set this Application for hearing; (iii) after such hearing the Commission affirm the justness and reasonableness of the proposed rates on a permanent basis; (iv) the Commission approve the Company's proposed revenue stabilization mechanism; (v) the Commission approve the Company's proposed uncollectibles automatic rate adjustment clause; and (vi) the Commission approve the Company's proposed recovery the jurisdictional portion of its COVID-19 regulatory asset over three years.

base rates and remove complications in accounting for the proposed increase for the Commission Staff and the Company that would be associated with a mid-month effective date for interim rates.

Respectfully submitted,

VIRGINIA-AMERICAN WATER COMPANY

Dated: November 15, 2021

By 
By Counsel

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Counsel for Virginia-American Water Company

CERTIFICATE OF SERVICE

I hereby certify that on this 15th day of November 2021, a copy of the foregoing Application was either delivered by electronic mail, to Kiva B. Pierce, Esq. and Kelli Cole, Esq., State Corporation Commission, Office of General Counsel, Tyler Building, 10th Floor, Richmond, Virginia 23219; and C. Meade Browder, Jr., Esq., Office of the Attorney General, 202 N. 9th Street, Richmond, VA 23219.