

COMMONWEALTH OF VIRGINIA  
STATE CORPORATION COMMISSION

AT RICHMOND, AUGUST 6, 2009

APPLICATION OF

ALPHA WATER CORPORATION; AQUA VIRGINIA, INC. (LAKE MONTICELLO); AQUA S/L, INC. (SHAWNEE LAND); AQUA UTILITY-VIRGINIA, INC. (LAKE SHAWNEE); BLUE RIDGE UTILITY COMPANY; CAROLINE UTILITIES, INC.; EARLYSVILLE FOREST WATER COMPANY; HERITAGE HOMES OF VIRGINIA, INC.; INDIAN RIVER WATER COMPANY; JAMES RIVER SERVICE CORPORATION; AQUA LAKE HOLIDAY UTILITIES, INC.; LAND'OR UTILITY COMPANY, INC.; MOUNTAINVIEW WATER COMPANY, INC.; POWHATAN WATER WORKS, INC.; RAINBOW FOREST WATER CORPORATION; SYDNOR WATER CORPORATION; AND WATER DISTRIBUTORS, INC.

CASE NO. PUE-2009-00059

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For an increase in water and sewer rates

ORDER FOR NOTICE AND HEARING

On July 15, 2009, Alpha Water Corporation; Aqua Virginia, Inc. (Lake Monticello); Aqua S/L, Inc. (Shawnee Land); Aqua Utility-Virginia, Inc. (Lake Shawnee); Blue Ridge Utility Company; Caroline Utilities, Inc.; Earlysville Forest Water Company; Heritage Homes of Virginia, Inc.; Indian River Water Company; James River Service Corporation; Aqua Lake Holiday Utilities, Inc.; Land'Or Utility Company, Inc.; Mountainview Water Company, Inc.; Powhatan Water Works, Inc.; Rainbow Forest Water Corporation; Sydnor Water Corporation; and Water Distributors, Inc. (hereafter collectively "Aqua Virginia" or "Company"), completed its filing of an application and accompanying testimony and exhibits with the State Corporation

Commission ("Commission") for an increase in water and sewer rates.<sup>1</sup> The application was filed pursuant to Chapter 10 of Title 56 of the Code of Virginia ("Code")<sup>2</sup> and the Commission's Rules Governing Utility Rate Applications and Annual Informational Filings.<sup>3</sup>

In its application, Aqua Virginia requests authority to increase its rates for most of its seventeen water systems and four sewer systems subject to the Commission's jurisdiction.<sup>4</sup> Increases in annual water revenues of \$1,551,290 and in annual wastewater revenues of \$1,730,244 are requested. These amounts are based in part on an 11.5% common equity cost rate and an overall rate of return of 8.32%.<sup>5</sup> The Company states that it is seeking a rate increase because of (i) ongoing capital needs that must be met in order to maintain and enhance service to customers; (ii) continuing increases in costs and operating expenses; (iii) costs associated with compliance requirements for state and federal regulations; and (iv) deficient earned returns on rate base in 2008 of 3.31% for its water systems and 5.22% for its sewer systems.<sup>6</sup>

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<sup>1</sup> In addition to this filing, on July 15, 2009, Aqua Virginia, Inc.; Alpha Water Corporation; Aqua S/L, Inc. (Shawnee Land); Aqua Utility-Virginia, Inc. (Lake Shawnee); Blue Ridge Utility Company; Caroline Utilities, Inc.; Earlysville Forest Water Company; Heritage Homes of Virginia, Inc.; Indian River Water Company; James River Service Corporation; Aqua Lake Holiday Utilities, Inc.; Land'Or Utility Company, Inc.; Mountainview Water Company, Inc.; Powhatan Water Works, Inc.; Rainbow Forest Water Corporation; Sydnor Water Corporation; Water Distributors, Inc.; Aqua Utilities, Inc.; Mayfore Water Company, Inc.; Reston/Lake Anne Air Conditioning Corp.; Ellerson Wells, Inc.; and Sydnor Hydrodynamics, Inc. filed a Joint Petition with the Commission for approval of a change in control and the transfer of assets, if necessary, pursuant to the Utility Transfers Act and for the transfer of certificates of public convenience and necessity pursuant to the Utility Facilities Act.

<sup>2</sup> Va. Code §§ 56-232 et seq.

<sup>3</sup> 20 VAC 5-201-10 et seq.

<sup>4</sup> Stanley Szczygiel Direct Testimony at 4.

<sup>5</sup> Harold Walker, III Direct Testimony at 56-57.

<sup>6</sup> Stanley Szczygiel Direct Testimony at 4.

Aqua Virginia also requests rate consolidation and uniform rates for its regulated utilities.<sup>7</sup> One fixed monthly base facility charge and one variable usage charge have been proposed for the four sewer systems. A fixed monthly base facility charge and a variable usage charge have been proposed for most of the seventeen water systems.<sup>8</sup> The proposed fixed monthly base charge for each of the four sewer systems is \$40.77, and the proposed variable usage charge is \$12.19 per thousand gallons. For fifteen of the seventeen water systems, the proposed fixed monthly base facility charge is \$20.77, and the proposed variable usage charge is \$4.78 per thousand gallons. Aqua Virginia proposes to maintain its currently approved rates for Alpha Water Corporation and Earlysville Forest Water Company. For the Alpha Water Corporation system, the proposed fixed monthly base facility charge is \$25.00, and the proposed variable usage charge is \$4.90 per thousand gallons. For the Earlysville Forest Water Company system, the proposed fixed monthly base facility charge is \$35.00, and the proposed variable usage charge is \$5.00 per thousand gallons.<sup>9</sup> The Company requests that the increased rates become effective for service rendered on and after November 19, 2009, on an interim basis, subject to refund pending a final order in this proceeding.<sup>10</sup>

Aqua Virginia also proposes eliminating the service availability fees that are currently collected from Aqua Virginia, Inc. (Lake Monticello); Aqua S/L, Inc. (Shawnee Land); Land'Or Utility Company, Inc.; and Aqua Lake Holiday Utilities, Inc. The Company proposes

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<sup>7</sup> Gregory Odell Direct Testimony at 7. Rate consolidation is the use of a unified rate structure for multiple water and wastewater service areas that are owned or operated by a single utility. Rate consolidation contains two separate but related concepts: a uniform tariff price for water and wastewater and a single cost of service, or revenue requirement, for water and wastewater. Under consolidated rates, customers pay a utility the same rate for similar service, regardless of the physical location of their service area. Id. at 7-8.

<sup>8</sup> Daniel T. Franceski Direct Testimony at 3; Schedule 43.

<sup>9</sup> Schedule 43.

<sup>10</sup> Application of Aqua Virginia, Consolidated for a General Increase in Rates at 2.

eliminating these fees because the "fees are extremely difficult to collect and as a result lead to a high percentage of aged accounts receivable, bad debt allowances and ultimately bad debt and excessive administrative expenses."<sup>11</sup>

NOW THE COMMISSION, upon consideration of the application and applicable statutes and rules, is of the opinion that a public hearing should be convened to receive evidence on the application and that pursuant to Rule 5 VAC 5-20-120 A of the Commission's Rules of Practice and Procedure, this matter should be assigned to a Hearing Examiner to conduct all further proceedings.<sup>12</sup> We will direct Aqua Virginia to give notice to the public of its application and we will give interested persons an opportunity to comment on the application or to participate as a respondent in this proceeding. The Staff of the Commission ("Staff") shall investigate the application and present its findings in testimony. The Company will be permitted to file testimony in rebuttal to the testimony filed by the respondents and the Staff.

The Company requested that the proposed rates become effective for service rendered on and after November 19, 2009. However, as Aqua Virginia's application was not complete until July 15, 2009, the Commission shall suspend the Company's proposed rates for a period of 150 days from July 15, 2009. On or after December 13, 2009, the Company may, but is not required to, implement its proposed rates on an interim basis, subject to refund with interest.

Accordingly, IT IS ORDERED THAT:

- (1) This case is docketed and assigned Case No. PUE-2009-00059.
- (2) Pursuant to 5 VAC 5-20-120 A of the Commission's Rules of Practice and Procedure, a Hearing Examiner is appointed to conduct all further proceedings in this matter.

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<sup>11</sup> Thomas Geddis Direct Testimony at 2.

<sup>12</sup> On July 15, 2009, the Company filed a Motion for Protective Order. This Motion for Protective Order shall be addressed by separate ruling by the Hearing Examiner appointed to conduct the proceedings in this matter.

(3) The proposed rates, charges, and terms and conditions of service shall be suspended, pursuant to § 56-238 of the Code, for a period of 150 days from the date the application was completed with the Commission to and through December 12, 2009. The Company may, but is not obligated to, implement proposed rates, charges, and terms and conditions for service rendered on and after December 13, 2009, on an interim basis, subject to refund with interest.

(4) A public hearing shall be convened on February 24, 2010, at 10:00 a.m., in the Commission's Courtroom, Second Floor, Tyler Building, 1300 East Main Street, Richmond, Virginia, to receive comments from members of the public and to receive evidence on the application. Any person desiring to make a statement at the public hearing concerning the application need only appear in the Commission's Courtroom at 9:45 a.m. on the day of the hearing and identify himself or herself to the Bailiff.

(5) Copies of Aqua Virginia's application, testimony, and schedules, as well as a copy of this Order, may be obtained by submitting a written request to counsel for Aqua Virginia, Anthony Gambardella, Esquire, Woods Rogers PLC, 823 East Main Street, Suite 1200, Richmond, Virginia 23219. If acceptable to the requesting party, the Company may provide the application by electronic means. Copies of the application, as well as a copy of this Order, also shall be available for interested persons to review in the Commission's Document Control Center, located on the First Floor of the Tyler Building, 1300 East Main Street, Richmond, Virginia, between the hours of 8:15 a.m. and 5:00 p.m., Monday through Friday. Interested persons may also download unofficial copies from the Commission's website:

<http://www.scc.virginia.gov/case>.

(6) On or before September 11, 2009, Aqua Virginia shall cause a copy of the following notice to be published as display advertising (not classified) on one (1) occasion in newspapers of general circulation throughout the Company's service territory within Virginia:

NOTICE TO THE PUBLIC OF AN APPLICATION  
BY ALPHA WATER CORPORATION; AQUA VIRGINIA, INC.  
(LAKE MONTICELLO); AQUA S/L, INC. (SHAWNEE LAND);  
AQUA UTILITY-VIRGINIA, INC. (LAKE SHAWNEE); BLUE  
RIDGE UTILITY COMPANY; CAROLINE UTILITIES, INC.;  
EARLYSVILLE FOREST WATER COMPANY; HERITAGE  
HOMES OF VIRGINIA, INC.; INDIAN RIVER WATER  
COMPANY; JAMES RIVER SERVICE CORPORATION;  
AQUA LAKE HOLIDAY UTILITIES, INC.; LAND'OR  
UTILITY COMPANY, INC.; MOUNTAINVIEW WATER  
COMPANY, INC.; POWHATAN WATER WORKS, INC.;  
RAINBOW FOREST WATER CORPORATION; SYDNOR  
WATER CORPORATION; AND WATER DISTRIBUTORS,  
INC., FOR AN INCREASE IN WATER AND SEWER RATES  
CASE NO. PUE-2009-00059

On July 15, 2009, Alpha Water Corporation; Aqua Virginia, Inc. (Lake Monticello); Aqua S/L, Inc. (Shawnee Land); Aqua Utility-Virginia, Inc. (Lake Shawnee); Blue Ridge Utility Company; Caroline Utilities, Inc.; Earlysville Forest Water Company; Heritage Homes of Virginia, Inc.; Indian River Water Company; James River Service Corporation; Aqua Lake Holiday Utilities, Inc.; Land'Or Utility Company, Inc.; Mountainview Water Company, Inc.; Powhatan Water Works, Inc.; Rainbow Forest Water Corporation; Sydnor Water Corporation; and Water Distributors, Inc. (hereafter collectively "Aqua Virginia" or "Company"), filed an application, and accompanying testimony and exhibits, with the State Corporation Commission ("Commission") for an increase in water and sewer rates. The application was filed pursuant to Chapter 10 of Title 56 of the Code of Virginia ("Code") and the Commission's Rules Governing Utility Rate Applications and Annual Informational Filings.

In its application, Aqua Virginia requests authority to increase rates for most of the seventeen water systems and four sewer systems subject to the Commission's jurisdiction. Increases in annual water revenues of \$1,551,290 and in annual wastewater revenues of \$1,730,244 are requested. These amounts are based in part on an 11.5% common equity cost rate and an overall rate of return of 8.32%. The Company states that it is seeking a rate

increase because of (i) ongoing capital needs that must be met in order to maintain and enhance service to customers; (ii) continuing increases in costs and operating expenses; (iii) costs associated with compliance requirements for state and federal regulations; and (iv) deficient earned returns on rate base in 2008 of 3.31% for its water systems and 5.22% for its sewer systems.

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Aqua Virginia also proposes eliminating the service availability fees that are currently collected from Aqua Virginia, Inc. (Lake Monticello); Aqua S/L, Inc. (Shawnee Land); Land'Or Utility Company, Inc.; and Aqua Lake Holiday Utilities, Inc. The Company proposes eliminating these fees because the fees are extremely difficult to collect and as a result lead to a high percentage of aged accounts receivable, bad debt allowances and ultimately bad debt and excessive administrative expenses.

The Commission has suspended Aqua Virginia's proposed rates and charges, pursuant to § 56-238 of the Code, for a period of 150 days from the date the application was completed with the Commission to and through December 12, 2009. The Company may, but is not obligated to, implement proposed rates, charges, and terms and conditions for service rendered on and after

December 13, 2009, on an interim basis, subject to refund with interest.

The Commission entered an Order for Notice and Hearing that, among other things, has scheduled a public hearing to commence at 10:00 a.m. on February 24, 2010, in the Commission's Second Floor Courtroom, Tyler Building, 1300 East Main Street, Richmond, Virginia, for the purpose of receiving comments from members of the public and evidence related to the application. Public witnesses desiring to make statements at the public hearing need only appear in the Commission's Second Floor Courtroom in the Tyler Building at the address set forth above prior to 9:45 a.m. on the day of the hearing and register a request to speak with the Commission's Bailiff.

Copies of the Company's application and the Commission's Order for Notice and Hearing may be obtained by submitting a written request to counsel for Aqua Virginia: Anthony Gambardella, Esquire, Woods Rogers PLC, 823 East Main Street, Suite 1200, Richmond, Virginia 23219. If acceptable to the requesting party, the Company may provide the application by electronic means. Copies of the application, as well as a copy of the Order for Notice and Hearing, also shall be available for interested persons to review in the Commission's Document Control Center, located on the First Floor of the Tyler Building, 1300 East Main Street, Richmond, Virginia, between the hours of 8:15 a.m. and 5:00 p.m., Monday through Friday. Interested persons may also download unofficial copies from the Commission's website: <http://www.scc.virginia.gov/case>.

Any interested person may participate as a respondent in this proceeding by filing, on or before October 16, 2009, an original and fifteen (15) copies of a notice of participation as a respondent with Joel H. Peck, Clerk, State Corporation Commission, c/o Document Control Center, P.O. Box 2118, Richmond, Virginia 23218-2118. Pursuant to Rule 5 VAC 5-20-80 of the Commission's Rules of Practice and Procedure, any notice of participation shall set forth: (i) a precise statement of the interest of the respondent; (ii) a statement of the specific action sought to the extent then known; and (iii) the factual and legal basis for the action. Interested persons shall refer in all of their filed papers to Case No. PUE-2009-00059. A copy of the notice of participation as a respondent must also be sent to counsel for the Company at the address set forth above.

On or before December 18, 2009, each respondent may file an original and fifteen (15) copies of any testimony and exhibits by which it expects to establish its case with the Clerk of the Commission at the address set forth above, and shall serve copies of the testimony and exhibits on counsel to the Company and on all other respondents. In the alternative, testimony and exhibits may be filed electronically as provided by 5 VAC 5-20-140. Respondents shall comply with the Commission's Rules of Practice and Procedure, including: 5 VAC 5-20-140; 5 VAC 5-20-150; and 5 VAC 5-20-240.

On or before February 17, 2010, any interested person may file with Joel H. Peck, Clerk, State Corporation Commission, c/o Document Control Center, P.O. Box 2118, Richmond, Virginia 23218-2118, written comments on the application and shall send a copy to counsel for Aqua Virginia at the address set forth above. On or before February 17, 2010, any interested person desiring to submit comments electronically may do so by following the instructions found on the Commission's website: <http://www.scc.virginia.gov/case>. All correspondence shall refer to Case No. PUE-2009-00059.

(7) On or before September 11, 2009, Aqua Virginia shall serve a copy of this Order on the chairman of the board of supervisors and county attorney of each county and upon the mayor or manager of every city and town (or upon equivalent officials in counties, towns and cities having alternate forms of government) in which the Company provides service. Service shall be made by first class mail to the customary place of business or residence of the person served.

(8) On or before October 16, 2009, the Company shall file proof of the notice and service required by Ordering Paragraphs (6) and (7) herein with Joel H. Peck, Clerk, State Corporation Commission, c/o Document Control Center, P.O. Box 2118, Richmond, Virginia 23218-2118.

(9) On or before February 17, 2010, any interested person may file with Joel H. Peck, Clerk, State Corporation Commission, c/o Document Control Center, P.O. Box 2118, Richmond, Virginia 23218-2118, written comments on the application and shall simultaneously serve a copy

on counsel for Aqua Virginia: Anthony Gambardella, Esquire, Woods Rogers PLC, 823 East Main Street, Suite 1200, Richmond, Virginia 23219. On or before February 17, 2010, any interested person desiring to submit comments electronically may do so by following the instructions found on the Commission's website: <http://www.scc.virginia.gov/case>. All comments shall refer to Case No. PUE-2009-00059.

(10) Any interested person may participate as a respondent in this proceeding by filing, on or before October 16, 2009, an original and fifteen (15) copies of a notice of participation with Joel H. Peck, Clerk, State Corporation Commission, c/o Document Control Center, P.O. Box 2118, Richmond, Virginia 23218-2118, and shall simultaneously serve a copy of the notice of participation on counsel for Aqua Virginia: Anthony Gambardella, Esquire, Woods Rogers PLC, 823 East Main Street, Suite 1200, Richmond, Virginia 23219. Pursuant to Rule 5 VAC 5-20-80 of the Commission's Rules of Practice and Procedure, any notice of participation shall set forth: (i) a precise statement of the interest of the respondent; (ii) a statement of the specific action sought to the extent then known; and (iii) the factual and legal basis for the action. Interested persons shall refer in all of their filed papers to Case No. PUE-2009-00059.

(11) Within five (5) business days of receipt of a notice of participation as a respondent, the Company shall serve upon each respondent a copy of this Order for Notice and Hearing, a copy of the application, and all materials filed by the Company with the Commission, unless these materials have already been provided to the respondent.

(12) On or before December 18, 2009, each respondent may file with the Clerk of the Commission an original and fifteen (15) copies of any testimony and exhibits by which it expects to establish its case and shall serve copies of the testimony and exhibits on counsel to the Company and on all other respondents. The respondent shall comply with the Commission's

Rules of Practice and Procedure, including: 5 VAC 5-20-140; 5 VAC 5-20-150; and 5 VAC 5-20-240.

(13) Staff shall investigate the application. On or before January 27, 2010, the Staff shall file with the Clerk of the Commission an original and fifteen (15) copies of Staff's testimony and exhibits and shall serve a copy on counsel to the Company and all respondents.

(14) On or before February 10, 2010, the Company shall file with the Clerk of the Commission an original and fifteen (15) copies of any rebuttal testimony that the Company expects to offer in rebuttal to the testimony and exhibits of the respondents and Staff and shall on the same day serve one copy on Staff and all respondents.

(15) The Commission's Rules of Practice and Procedure, 5 VAC 5-20-260, shall be modified for this proceeding as follows: answers to interrogatories and requests for production of documents shall be served within seven (7) business days after receipt of the same. Except as modified above, discovery shall be in accordance with Part IV of the Commission's Rules of Practice and Procedure.

(16) Aqua Virginia may supplement its filing or testimony by filing an original and fifteen (15) copies of the supplemental filing or testimony with the Clerk of the Commission within thirty (30) days of the date of entry of this Order.

(17) The Company shall file with the Clerk of the Commission within thirty (30) days of the date of entry of this Order "evidence supporting and justifying any allocation of corporate rate base to Aqua Virginia," as was ordered by the Commission in its June 15, 2009 Final Order in Case No. PUE-2008-00023.

(18) This matter is continued generally.

AN ATTESTED COPY hereof shall be sent by the Clerk of the Commission to:  
Anthony Gambardella, Esquire, Woods Rogers PLC, 823 East Main Street, Suite 1200,  
Richmond, Virginia 23219; C. Meade Browder, Jr., Senior Assistant Attorney General, Division  
of Consumer Counsel, Office of 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.