DISCLAIMER
This electronic version of an SCC order is for informational purposes only and is not an official document of the Commission. An official copy may be obtained from the Clerk of the Commission, Document Control Center.

COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, DECEMBER 17, 1999

STEPHEN M. TURNER, et al. CASE NO. PUE990002

v.

AUBON WATER COMPANY

FINAL ORDER

By notice dated November 4, 1998, Aubon Water Company ("Aubon" or "the Company") notified its customers and the Commission's Division of Energy Regulation, pursuant to the Small Water or Public Utility Act (Va. Code § 56-265.13:1, et seq.) of its intent to increase its water rates effective for service rendered on and after January 16, 1999.

On January 13, 1999, the Commission issued a Preliminary Order in this Case, in which judicial notice was taken of the Commission's Order of Settlement, dated December 16, 1998, in Case No. PUE980628, wherein Aubon is required to install water treatment facilities for its Long Island Estates customers[1]. The Company's proposed rates were suspended through March 8, 1999, pending a hearing to be scheduled, pursuant to Va. Code § 56-

[1] The specific measures required of Aubon involve installing a water treatment facility to remove iron and manganese from the subdivision's water system. The Order sets certain deadlines for the design and construction of the facility.

265.13:6. Following the suspension of the proposed rates, the Company's new rates were made interim, subject to refund with interest, effective for service rendered on or after March 9, 1999. The Company was also ordered to file certain financial data in support of its proposed rates.

On February 12, 1999, we issued an Order of Notice and Hearing, which appointed a Hearing Examiner,[2] directed a Staff investigation, prescribed notice to ratepayers and others, established a prefiling schedule, and scheduled a public hearing to be convened on April 20, 1999. By letter dated March 17, 1999, the Company notified the Commission's Staff that it had failed to provide customer notice as required in the Commission's Order of February 12, 1999. The Hearing Examiner issued a Ruling on March 23, 1999, which extended the prefiling schedule to allow the Company another opportunity to prefile its case-in-chief and to provide its customers with the required notice of public hearing, which was rescheduled for June 22, 1999.

The public hearing was convened on June 22, 1999, at 10:00 a.m. in the Commission's 2nd Floor Courtroom, Tyler Building, 1300 East Main Street, Richmond, Virginia. The Company appeared *pro se* by its president, G. Ray Boone and the Commission's

[2] By separate Order of February 17, 1999, entered in Case No. PUE980628, the same Hearing Examiner was assigned to monitor Aubon's compliance with the Order of Settlement.

Divisions of Energy Regulation and Public Utility Accounting (the "Staff") participated through their Staff counsel. One member of the public, Mr. Carl W. Anderson, a resident ratepayer of the Long Island Estates subdivision, also appeared and testified. Mr. Anderson testified, based upon his conversations with a number of his neighbors, that they were not opposed to a rate increase as long as the water quality was improved. He would prefer that the cost of the water treatment facility be spread among all of the Company's customers.

The Company proposed the following rates to cover its current level of expenses and cover the cost of constructing a water treatment facility for its Long Island Estates water system:

		Current Rates	**Proposed Rates**
1.	Service Connections	$475.00	$950.00
2.	Water Rates:		
	a. first 3,000 gallons (per 1,000 gallons)	$2.50	$5.00
	b. over 3,000 gallons (per 1,000 gallons)	$3.50	$6.00
3.	Minimum Charge	$7.50	$15.00

Aubon's Water Systems

Aubon provides water utility service in Franklin County, with its office located in Rocky Mount, Virginia. Aubon serves approximately 255 customers through four separate water systems,

each with independent water sources. The Hillcrest system comprises one well and two storage tanks serving 16 customers. The Franklin Heights system comprises four wells and two storage tanks, and serves 142 customers, although designed to serve 130. The Alton Park system consists of one well and two storage tanks, and serves 39 customers. Finally, the Long Island Estates system consists of three wells and two storage tanks, and it serves 58 customers, although designed to serve 46.

The Hearing Examiner found that although all of the systems suffer from lack of capacity or poor quality of water, the worst system in terms of water quality is the Long Island Estates system. The water in this system is extremely hard and contains excessive amounts of iron and manganese. The water meets current state and federal drinking water standards except for the high concentration of iron and manganese, which pose no health problems. A number of Aubon's customers on the Long Island Estates system have complained of the water's discoloration of plumbing fixtures and clothes. The Hearing Examiner noted that the Virginia Department of Health ("VDH") and the Commission's Staff, acting upon these customer complaints, initiated the action in Case No. PUE980628, which resulted in the Commission's Order of Settlement, entered on December 16, 1998.

Financing the Water Treatment Facility

Mr. Boone testified on behalf of the Company that the utility lacked the capital to finance the required water treatment facility for the Long Island Estates system.

The only financing commitment obtained by Aubon is from the First Virginia Bank in Rocky Mount, Virginia (the "Bank") in the amount of $80,000. The loan commitment, however, is conditioned upon the Company addressing the annexation of the Franklin Heights subdivision by the Town of Rocky Mount. To secure its loan, the Bank requires the Company to obtain Rocky Mount's agreement to allow Aubon to continue providing water utility service for ten years (the life of the loan) or to obtain, through condemnation proceeds of the utility's assets in the newly annexed area, sufficient monies to pay off the Bank's loan. The annexation issue has not been resolved as of the date of this Order.

Rate Design

Mr. Boone testified that he is concerned that if the cost of the water treatment facility is borne by the Long Island Estates customers alone, his rates will be too high and he would soon lose more customers to self-supply than the three he identified in rebuttal testimony.[3] Mr. Boone was also opposed to

[3] Staff adjusted their recommendations to reflect the loss of these customers.

Staff's proposed recommended three-tiered rate schedule, which Staff recommended to promote water conservation.

Staff's Evidence

Staff calculated the Company's revenue requirement (exclusive of the required water treatment facility) for the test year ending August 31, 1998, to be $41,274, which produces adjusted operating income of $6,054, yielding a 17.30% return on a rate base of $35,001.

If the Commission approves a rate increase for the Company that includes the costs associated with the water treatment facility, the Staff calculated that an additional annual revenue increase of $27,858 would be necessary to fund construction and operation of the water treatment facility for Long Island Estates. The total annual revenue requirement would increase to $69,132.

Other Staff Recommendations

Staff recommended that the Company collect two $4,000 no-interest loans made to Mr. Boone and to a business owned by his daughter. Second, the Company should transfer a prepaid water main extension from its prepaid account to CIAC, thus reflecting that the prepaid account is now the Company's property after ten years on the Company's books. Third, the Company should maintain its books in accordance with the Uniform System of Accounts for Class "C" Water Utilities. The Staff also

recommended that the Company should depreciate its plant and amortize contributions at a three percent composite rate.

Staff also presented testimony concerning the quality of the utility's water systems and alternative rate designs, with their corresponding rate impacts. Staff made the following recommendations: the Company's requested increase in its service connection charge should be denied as unsupported by the evidence; the Company should be required to change the rates in its tariff from monthly to bimonthly to coincide with the Company's bimonthly billing cycle; and the Company should clearly state in its tariff the rates that apply to multi-unit connections.

Hearing Examiner Findings

The Hearing Examiner concluded that the Company should authorized rates sufficient to fund construction of the water treatment facility under the terms of the bank's loan commitment for $80,000, with certain safeguards to refund the revenue if the bank loan is not obtained. The Hearing Examiner also concluded that a single, three-tiered rate design should be approved by the Commission.

The Hearing Examiner made the following findings and recommendations:

(1) The use of a test year ending August 31, 1998, to determine the Company's income and expenses is reasonable;

(2) An annual revenue requirement of $69,132 is reasonable to cover the Company's current operating expenses and the expenses related to the construction, operation, and maintenance of the water treatment facility;

(3) The Company's annual revenue increase should be made effective March 9, 1999;

(4) Based on annual revenues of $69,132, the Company's rate of return on rate base of 11.31% is reasonable;

(5) The Commission should require the Company to establish an escrow account to be used solely for the payment of expenses related to the construction, operation, and maintenance of a water treatment facility for the Long Island Estates subdivision in Franklin County, Virginia;

(6) The Commission should require the Company to deposit into the aforesaid escrow account the pro rated sum of $1,779.81 for the month of March 1999, and the sum of $2,321.50 for each month thereafter, up to and including the month the Commission enters its order in this case, to cover the expenses related to the water treatment facility;

(7) Beginning the month after the Commission enters its order in this case, and each month thereafter, the Company shall deposit the sum of $2,321.50 into the escrow account on or before the 10th day of the month;

(8) The Commission should allow the Company eight months from the date of its order to resolve the Bank's second loan condition;

(9) If the Company fails to satisfy the Bank's second loan condition, the Commission should:

(a) order the Company to file an application for a rate decrease;

(b) order the Company to place the Staff's recommended individual rates into effect on an interim basis;

(c) permit the Company to pay all reasonably incurred construction expenses related to the water treatment facility out of the escrow account;

(d) require the Staff to audit the escrow account; and

(e) order a pro rata refund of all monies remaining in the escrow account.

(10) The Commission should require the Company to file annually with the VDH an application for a loan under the Drinking Water Revolving Fund Program;

(11) The Commission should require the Company to file a quarterly report, including supporting documentation, with the Staff showing all deposits into and all disbursement from the escrow account;

(12) The Commission should require the Staff to conduct an annual audit of the Company's escrow account;

(13) The Commission should approve the following three-tiered single-tariff rates and make them effective on the first day of the month immediately following the Commission's order in this case:

	Monthly Rate
First 3,000 gallons	$13.60
3,001-8,000 gallons, per 1,000 gallons	$ 6.50
Over 8,000 gallons, per 1,000 gallons	$ 9.00

(14) The Company should either collect the two $4,000 no-interest loans, or charge the borrowers a competitive market interest rate on the loans;

(15) The Company should transfer a prepaid water main extension from its prepaid account to CIAC;

(16) The Company should be required to maintain its books in accordance with the Uniform System of Accounts for Class "C" Water Utilities;

(17) The Company should depreciate plant and amortize contributions at a three percent composite rate in accordance with the Commission's decision in Case No. PUE870037;

(18) The Company's request for an increase in its service connection charge should be denied;

(19) The Company should change the rates in its tariff from monthly to bimonthly to coincide with its bimonthly billing cycle; and

(20) The Company should clearly state in its tariff the methodology used to calculate the rates for multi-unit connections.

No comments on the Hearing Examiner's Report were filed.

NOW THE COMMISSION, having considered the record, the Hearing Examiner's Report, and the applicable law is of the opinion and finds that the findings and recommendations of the Hearing Examiner's Report should be accepted and approved, subject to the following modifications. First, the Company shall establish within five business days of the effective date of this Order, the recommended escrow account to be used solely for the payment of expenses related to the construction, operation, and maintenance of the new water treatment facility to be constructed for the Long Island Estates subdivision. The Company shall deposit, monthly, to such account revenue amounts as stated in the Hearing Examiner's report, effective with the date of this Order. In addition, the Company shall determine the amount collected during the period March 9, 1999, through the date of this Order and deposit this amount, net of expenditures made relating to the water treatment facility, such as engineering fees. The Company shall pay no expenditures out

of or make withdrawals from the escrow account containing revenues collected for the construction of the water treatment facility until after the bank loan is obtained. This additional safeguard is necessary to protect the interests of the ratepayers.

Secondly, the Commission recognizes that authorizing the revenues necessary to finance the water treatment facility may not be sufficient in and of itself to secure financing. The assistance of other state agencies in securing financing of the required water treatment facility may be required. To that end, the Commission finds that the Clerk should send a copy of this Order and the Hearing Examiner's Report approved herein to the local Health Department and to the Commission of Local Government. The Staff is further directed to offer its assistance to the Director of the Revolving State Fund in reviewing Aubon's loan application. Thirdly, Aubon is ordered to collect in full, both loans for $4,000 within eight months from the date of this Order, which shall be in lieu of the alternative recommendation of the Hearing Examiner to collect interest. Finally, the Commission finds that adoption of the recommended rate design shall be made effective March 9, 1999. This should result in refunds to some customers, and will avoid an apparent application of a second rate increase following the interim rates being placed in effect on March 9, 1999.

Accordingly, IT IS ORDERED THAT:

(1) The Hearing Examiner's Report is hereby approved and the recommendations therein are adopted, subject to the modifications found above.

(2) The Company is hereby ordered to establish within five business days from the effective date of this Order an escrow account to be used solely for the payment of expenses related to the construction, operation, and maintenance of the water treatment facility to be constructed for the Long Island Estates subdivision.

(3) The Company is hereby ordered to deposit monthly in the required escrow account the pro rated sum of $1,779.81 for the month of March, 1999, and the sum of $2,321.50 for each month thereafter, through the last day of the month following the date of this Order, net of expenditures made relating to the water treatment facility and any refunds required by this Order.

(4) Beginning the month after the effective date of this Order, the Company is hereby ordered to deposit the sum of $2,321.50 into the required escrow account on or before the tenth day of the month.

(5) The Company is hereby ordered to make no further expenditures or withdrawals from the required escrow account, except for service charges associated with such account, until

the bank loan is made to the Company or until further order of the Commission.

(6) If the Company fails to obtain the bank loan or other suitable financing within eight months from the effective date of this Order, the Company is hereby ordered to file an application for a rate decrease that eliminates the revenues associated with the water treatment facility, and place into effect the individual rates recommended by Staff in this case, on an interim basis.

(7) In the event that the Company fails to obtain the bank loan or other suitable financing within eight months from the effective date of this Order, the Staff is hereby directed to audit the Company's escrow account and prepare a report recommending the pro rata refund of all monies held in escrow.

(8) The Company is hereby ordered to file annually an application with the VDH for a loan under the Drinking Water Revolving Fund Program.

(9) The Company is hereby ordered to file a quarterly report to the Commission's staff, with supporting documentation showing all escrow account activity for the preceding three months within 30 days of the end of each quarter. The first report is due January 31, 2000.

(10) The Staff is hereby directed to conduct an annual audit of the escrow account ordered herein.

(11) The Company is hereby authorized to apply the following three-tiered single-tariff rates, which shall become effective on the first day of the month immediately following the effective date of this Order:

	Monthly Rate
First 3,000 gallons	$13.60
3,001-8,000 gallons, per 1,00 gallons	$ 6.50
Over 8,000 gallons, per 1,000 gallons	$ 9.00

(12) The Company shall collect the two $4,000 no-interest loans within five months of the effective date of this Order.

(13) The Company shall transfer a prepaid water main extension from its prepaid account to CIAC.

(14) The Company shall be required to maintain its books in accordance with the Uniform System of Accounts for Class "C" Water Utilities;

(15) The Company shall depreciate plant and amortize contributions at a three percent composite rate in accordance with the Commission's decision in Case No. PUE870037;

(16) The Company's request for an increase in its service connection charge is hereby denied;

(17) The Company shall change the rates in its tariff from monthly to bimonthly to coincide with its bimonthly billing cycle; and

(18) The Company shall clearly state in its tariff the methodology used to calculate the rates for multi-unit connections.

(19) This matter is continued generally.