

**Virginia State Corporation Commission  
eFiling CASE Document Cover Sheet**

15012 0104

**Case Number (if already assigned)** PUE-2014-00066

**Case Name (if known)** Petition of Virginia American Water Company, Aqua Virginia, Inc. and Massanutten Public Service Corporation For Rulemaking to Establish a Water and Wastewater Infrastructure Service Charge

**Document Type** RETE

**Document Description Summary** Testimony of Carl W. Eger on behalf of the City of Alexandria

**Total Number of Pages** 22

**Submission ID** 8968

**eFiling Date Stamp** 1/27/2015 3:51:35PM



OFFICE OF THE CITY ATTORNEY

301 KING STREET, SUITE 1300  
ALEXANDRIA, VIRGINIA 22314

<http://alexandriava.gov>

(703) 746-3750

FACSIMILE  
(703) 838-4810

JAMES L. BANKS, JR.  
CITY ATTORNEY

CHRISTOPHER P. SPERA  
DEPUTY CITY ATTORNEY

JILL A. SCHAUB  
SENIOR ASSISTANT CITY ATTORNEY

ASSISTANT CITY ATTORNEYS  
MARY E. O'DONNELL  
GEORGE McANDREWS  
KAREN S. SNOW  
CHRISTINA ZECHMAN BROWN  
MEGHAN S. ROBERTS  
JOANNA C. ANDERSON  
TRAVIS MACRAE

January 27, 2015

VIA ELECTRONIC FILING

Joel H. Peck, Clerk  
c/o Document Control Center  
State Corporation Commission  
PO Box 1197  
Richmond, VA 23218

RE: Petition of Virginia American Water Company, Aqua Virginia, Inc. and  
Massanutten Public Service Corporation For Rulemaking to Establish a Water and  
Wastewater Infrastructure Service Charge  
Case Number: PUE-2014-00066

Dear Mr. Peck:

I enclose the Testimony of Carl W. Eger on behalf of the City of Alexandria.

Thank you for your assistance in this matter.

Sincerely,

Karen S. Snow  
Assistant City Attorney

Enclosure

cc: Certificate of Service

150120194

**BEFORE THE VIRGINIA STATE CORPORATION COMMISSION**

**CASE NO. PUE-2014-00066**

**TESTIMONY**

**OF**

**CARL W. EGER, III**

**ON BEHALF OF**

**THE CITY OF ALEXANDRIA VIRGINIA**

**JANUARY 27, 2015**

**CITY OF ALEXANDRIA, VIRGINIA  
TESTIMONY OF  
CARL W. EGER III**

1       **1. Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2       **A.** Carl W. Eger III. My business address is 301 King Street, Alexandria, Virginia  
3               22314

4       **2. Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5       **A.** I am the Energy Manager for the City of Alexandria. My primary responsibilities  
6               include servicing utility billings, including billings for water, to City-owned or  
7               operated properties and facilities. Moreover, a portion of my responsibilities  
8               includes providing public utility policy and regulatory issues guidance to the City  
9               Council, City Attorney's Office, and City Manager's Office.

10

11       **3. Q. HOW LONG HAVE YOU HELD THIS POSITION?**

12       **A.** I have held this position since January 4, 2010.

13

14       **4. Q. PLEASE OUTLINE YOUR EDUCATIONAL, BACKGROUND AND  
15               WORK EXPERIENCE.**

16       **A.** I hold a Bachelor of Science Degree in Electrical Engineering, a Bachelor of  
17               Science Degree in Computer Engineering, and a Master of Science Degree in  
18               Engineering (Mechanical Engineering and Energy Engineering concentrations  
19               with additional graduate-level education in economics, econometrics, and public  
20               policy) from the University of Dayton in Dayton, Ohio. I am a registered

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22

Professional Engineer in the State of Ohio, a Leadership in Energy and Environmental Design (LEED) Accredited Professional, and a Certified Public Manager. In 2013, I completed Michigan State University Institute of Public Utilities Annual Regulatory Studies Program (“Camp NARUC”) training. From 2012 to present, I have served on the Virginia Energy Purchasing Government Authority (VEPGA) Board of Directors. I also serve on other boards and commissions.

I joined the City of Alexandria in 2010 as Energy Manager. In 2011, I was promoted to the City of Alexandria’s Senior Management Group.

From 2004 through 2006, I was Lead Engineer of the US Department of Energy Industrial Assessment Center at the University of Dayton with specializations that include industrial pumping systems, including water treatment and conveyance.

From 2007 through 2008, I held position as Energy Manager for the City of Cleveland Division of Water before promotion in 2008 to the position of Energy Manager for the City of Cleveland Mayor’s Office of Sustainability.

**5. Q. HAVE YOU PREVIOUSLY PROVIDED TESTIMONY BEFORE ANY REGULATORY AGENCY AS TO MATTERS AFFECTING WATER UTILITY COMPANIES?**

**A.** No. I have not previously testified before any regulatory agency as to matters affecting water utility companies.

1       6.     **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**  
2             **PROCEEDING?**

3             A. To address the impact of the WWISC on Alexandria ratepayers.  
4

5       7.     **Q. DO YOU SPONSOR ANY EXHIBITS?**

6             A. Yes, I am sponsoring one exhibit. Exhibit A contains a resolution filed by the  
7             National Association of State Utility Consumer Advocates (NASUCA) calling  
8             upon state regulatory authorities to refuse to allow annual tracking adjustments to  
9             rates resulting from non-traditional water, sewer, infrastructure replacement  
10            programs like the WWISC.  
11

12       8.     **Q. HAVE YOU REVIEWED THE DIRECT TESTIMONY OF WILLIAM R.**  
13             **WALSH AND GARY L. AKMENTINS OF VIRGINIA-AMERICAN**  
14             **WATER COMPANY (VAWC) FILED IN THIS PROCEEDING?**

15            A. Yes. I have reviewed Mr. Walsh's and Mr. Akmentins' testimony in this  
16            proceeding.  
17

18       9.     **Q. ARE YOU FAMILIAR WITH TWO RECENTLY FILED RATE CASES**  
19             **BY VAWC?**

20            A. Yes. I am familiar with VAWC's two most recently filed rate cases: PUE-2010-  
21            0001 and PUE-2011-00127.  
22

1       **10. Q. IN EITHER OF THOSE CASES DID VAWC SUBMIT OR PROFFER**  
2                   **EVIDENCE OR STATEMENT OF NEED FOR INFRASTRUCTURE**  
3                   **INVESTMENT THAT IT DEEMED EXCEPTIONAL?**

4       **A. No, to the best of my knowledge and belief.**

5  
6           In cases PUE-2010-00001 and PUE-2011-00127, VAWC discussed infrastructure  
7           investment, but did not submit or proffer evidence or statement of need for  
8           infrastructure investment that was deemed exceptional. In PUE-2010-00001, Mr.  
9           Michael D. Youshock testified on behalf of VAWC regarding capital investments  
10          that were currently underway or had been recently completed. A selection of such  
11          projects Mr. Youshock discussed include replacement/upgrade of piping in  
12          Alexandria, new tank construction in Dale City, and expansion of the Hopewell  
13          Water Treatment Plant.

14  
15          Mr. Youshock provided rebuttal testimony in case PUE-2010-00001 which also  
16          does not provide evidence or statement of need for infrastructure investment  
17          deemed exceptional.

18  
19          In PUE-2011-00127, Mr. Michael D. Youshock testified on behalf of VAWC  
20          regarding capital investments and major projects. Mr. Youshock discussed work  
21          associated with the Hopewell Water Treatment Plant improvements, VAWC's  
22          demand side management plan, tank maintenance and rehabilitation program, and  
23          implementation of automatic meter reading (AMR) in VAWC's Alexandria

1 district. Similar to PUE-2010-00001, Mr. Youshock did not provide evidence or  
2 statement of need for infrastructure investments deemed exceptional.

3  
4 This is not to say that VAWC does not have a need to replace aging, non-revenue  
5 generating infrastructure. The City of Alexandria operates and maintains 189  
6 miles of storm sewer, 240 miles of sanitary sewer, and 6 miles of combined sewer  
7 lines within its jurisdiction. Such sewer lines suffer the same issues as VAWC's  
8 and require similar maintenance, replacement, and investment. Therefore, by way  
9 of the City of Alexandria's own experience, it recognizes VAWC's desire and  
10 need to replace its aging infrastructure. However, for at least a decade, the City of  
11 Alexandria has included such investment in its capital improvement program  
12 which is rigorously examined by its City Council and the public as a component  
13 its budget process. The needed infrastructure investments' costs, timelines for  
14 implementation, and benefits are clearly outlined for the public's examination and  
15 comment and is done so within the context of a budget process that includes other  
16 capital investments and operating costs. In numerous ways, the City of  
17 Alexandria's budget process is analogous to a base-rate case which can be filed  
18 with the State Corporation Commission by VAWC.

- 19  
20  
21 **11. Q. IN THE LAST FIVE YEARS, TO YOUR KNOWLEDGE, HAS VAWC**  
22 **ALLEGED IN ANY PROCEEDING OR TO THE CITY OF ALEXANDRIA**



1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23

**THAT INFRASTRUCTURE WAS IN JEOPARDY DUE TO  
'REGULATORY LAG'?**

A. No. To the best of my knowledge and belief, at no time has VAWC alleged in any proceeding or directly to the City that it's infrastructure is in jeopardy due to 'regulatory lag'.

**12. Q. DO YOU AGREE WITH VAWC THAT THE ESTABLISHMENT OF A  
WWISC TO ACCOMMODATE INFRASTRUCTURE REPLACEMENT  
COSTS WOULD NOT GENERATE ADDITIONAL REVENUE FOR  
VAWC AS IT DOES NOT CONNECT NEW CUSTOMERS TO THE  
SYSTEM?**

A. Yes, with the following clarification. I agree it is not the explicit intent of VAWC or the allowable result of infrastructure replacements funded through the WWISC to directly add new customers to its system and generate commensurate additional revenue. However, it is unreasonable for VAWC to state absolutely that such infrastructure replacement will not indirectly lead to acquisition of new customers and the ability to generate additional revenue. Based on the City of Alexandria's experience in infrastructure replacement (particularly wastewater distribution systems), it is unlikely VAWC would replace infrastructure one-for-one and not consider enhancements in capacity to accommodate future system growth requirements which would include the connection of new customers and generation of additional revenue. As such, current ratepayers should be afforded

1 access to an open public process through base-rate cases to evaluate the cost  
2 burden of such investments which may have intergenerational effects; especially  
3 those projects which may not permit new customer connection immediately, but  
4 may facilitate new customer connections and additional revenue generation within  
5 their system in the future.

6  
7 Moreover, while VAWC argues that infrastructure replacement does not generate  
8 additional revenue, such investments will likely have countervailing operating  
9 cost reductions. Such cost reductions can have similar effect as additional  
10 revenue despite not adding new customers to the system. A base-rate case  
11 examines infrastructure improvements made by a utility as well as a myriad of  
12 expenses required to operate a utility. As such, the cost interdependencies of  
13 infrastructure investment and utility operating costs should be weighed together  
14 accordingly, for the benefit of conveying the lowest rates to ratepayers. As such,  
15 ratepayers should be afforded an open and public process through base-rate cases  
16 to sufficiently evaluate and scrutinize the costs and benefits of VAWC's  
17 infrastructure replacements.

18  
19 **13. Q. WHAT WOULD THE EFFECT OF THE PROPOSED WWISC BE ON**  
20 **RATEPAYERS?**

21 **A.** The effect of the proposed WWISC on ratepayers is uncertain, but could likely  
22 lead to potentially unfair and unreasonable costs to ratepayers. The proposed  
23 WWSIC would reflect the water or wastewater utility's weighted average costs of

1 capital, including the cost of debt and the cost of equity used in determining the  
2 water or wastewater utility's base rates in effect during the construction period for  
3 eligible infrastructure replacement projects. Currently, if a utility's cost of capital  
4 has not changed over the preceding five years the State Corporation Commission  
5 may require an updated statement of a utility's cost of capital.

6  
7 The rate of return awarded a utility from its most recent base rates would  
8 propagate to the WWISC and could likely be an enhancement over what the  
9 infrastructure replacement projects would otherwise command if examined within  
10 the context of a base-rate case. Therefore, ratepayers could bear a considerable  
11 cost premium for infrastructure replacement projects absent consideration within  
12 the context of a base-rate case.

13  
14 Mr. Akmentins' testified about various ratepayer protections, including "the  
15 utility must reconcile the difference between the amount of eligible infrastructure  
16 costs incurred and the projected amounts recovered under the rider" to ensure  
17 over collection is returned to the customer. However, such protections do not  
18 address whether the rate of return awarded to VAWC and propagated to the  
19 WWISC is sufficiently reflective of a prudent and reasonable return on the cost of  
20 capital for the eligible infrastructure costs incurred. Moreover, VAWC provides  
21 no ratepayer protections which limit the annual increase in the WWISC as a  
22 percentage of system revenue; cap the total WWISC as a percentage of system  
23 revenue; and make transparent the countervailing cost reductions in VAWC's

1 system operations and maintenance from replacement of aging infrastructure for  
2 reconciliation in a base-rate case.

3  
4 Infrastructure surcharges such as the WWISC aren't necessarily in the favor of  
5 ratepayers as they 1) contradict sound rate of return ratemaking principles, 2)  
6 circumvent public's right to sufficient regulatory review which evaluates  
7 prudence and reasonableness, 3) eliminates the incentive for VAWC to control  
8 costs between rate cases, 4) reduces rate stability from more frequent rate cases,  
9 5) inappropriately rewards water companies that imprudently fall behind in  
10 infrastructure improvements, and 6) shifts business risk away from water  
11 companies to ratepayers.

12  
13 **14. Q. DO YOU AGREE WITH MR. WALSH'S TESTIMONY REGARDING**  
14 **THE IMPORTANCE OF THE WWISC? IF NOT, WHY NOT?**

15 **A.** Yes, with limits. The City of Alexandria recognizes the costs of VAWC's filing  
16 of base rate case would ultimately be passed on to ratepayers. However, such  
17 base-rate cases offer the public the opportunity for prudent examination and  
18 review of ratepayer's water and wastewater costs through standard regulatory  
19 procedures. While the costs of a base-rate filing are passed along to ratepayers,  
20 such costs are balanced against the consideration and review of the totality of  
21 costs such ratepayers might bear. Moreover, VAWC provides no evidence that  
22 base-rate cases will be filed on a less-frequent basis than historical experience

1 would suggest. Therefore, it is evident that ratepayers may enjoy lower costs  
2 from reduced base-rate cases as Mr. Walsh has testified.

3  
4 **15. Q. DO YOU AGREE WITH MR. WALSH’S TESTIMONY THAT THE**  
5 **PROPOSED INFRASTRUCTURE SURCHARGE WOULD ALLOW VAWC**  
6 **TO ACHIEVE BENEFITS THROUGH A ‘MODEST, INCREMENTAL,**  
7 **LIMITED SURCHARGE?’**

8 A. Mr. Walsh’s only evidence to support such an assertion is that project costs will  
9 be known in advance by the State Corporation Commission and that the WWISC  
10 only supports infrastructure replacement and addresses primary and secondary  
11 water quality issues. While Mr. Walsh testifies the WWISC will be limited only  
12 to infrastructure replacement, he provides no evidence that the WWISC will be  
13 modest, incremental, or limited in magnitude (i.e. cost). Therefore, it is uncertain  
14 whether the WWISC would be a “modest, incremental, limited surcharge”.

15  
16 Petitioner’s argue that studies by the United States Environmental Protection  
17 Agency and American Society of Civil Engineers which estimate the necessary  
18 investment in water and wastewater infrastructure in Virginia to be nearly \$6.7  
19 billion and \$6.9 billion, respectively. Recognizing that VAWC’s responsibility is  
20 only a fraction of this total necessary investment, and that cost will be spread over  
21 time and across VAWC’s rate base, it is still reasonable to believe that such  
22 infrastructure investments will be costly to VAWC’s ratepayers. As VAWC has  
23 not, to the best of our knowledge and belief, submitted or proffered evidence or

1 statement of need for infrastructure investment that is deemed exceptional in its  
2 two previous base-rate cases – PUE-2010-00001 and PUE-2011-00127 – it is  
3 uncertain what the cost impact will be to a customer’s bill. As such, VAWC  
4 should pursue justification of its needed infrastructure investment costs as part of  
5 a base-rate case before asserting its need for a WWISC rider so that the total  
6 effect on a customer’s bill can be determined.  
7

8 **16. Q. DO YOU AGREE WITH MR. WALSH THAT THE PROPOSED**  
9 **INFRASTRUCTURE SURCHARGE ADDRESSES RATE PAYER**  
10 **CONCERNS ABOUT RATE INCREASES?**

11 A. No. It is uncertain whether the WWISC would be “gradual and incremental,  
12 unlike the traditional rate base model”. As I have previously testified, in the  
13 original petition, the Petitioners cite studies by the United States Environmental  
14 Protection Agency and American Society of Civil Engineers which estimate the  
15 necessary investment in water and wastewater infrastructure in Virginia to be  
16 nearly \$6.7 billion and \$6.9 billion, respectively. Recognizing that VAWC’s  
17 responsibility is only a fraction of this total necessary investment, and that costs  
18 will be spread over time and across VAWC’s rate base, it is still reasonable to  
19 believe that such infrastructure investments will be costly to VAWC’s ratepayers.  
20 Moreover, VAWC has not, to the best of my knowledge and belief, submitted or  
21 proffered evidence or statement of need for infrastructure investment that is  
22 deemed exceptional in its two previous base-rate cases – PUE-2010-00001 and

1 PUE-2011-00127. Accordingly, it is uncertain what the cost impact will be to a  
2 customer's bill.

3  
4 **17. Q. DO YOU AGREE THAT A BASE RATE CASE INHIBITS THE**  
5 **MAINTENANCE AND REPLACEMENT OF INFRASTRUCTURE?**

6 A. Mr. Akmentins testifies "customers benefit when a company maintains  
7 infrastructure to ensure the continued delivery of safe and reliable service.  
8 Proactive utilities that are looking at the long-term interests of their customers and  
9 the long-term costs to their customers are looking at replacing pipes that are near  
10 the end of their useful life in a systematic, responsible manner that will result in  
11 lower costs to customers over time as compared with deferring needed  
12 replacements. This type of infrastructure investment is good for the long term  
13 sustainable costs of water system, good for the local economies, and improves the  
14 long-term reliability of the water supply."

15  
16 The City of Alexandria certainly agrees with Mr. Akmentins' testimony and  
17 appreciates VAWC's commitment to deliver safe and reliable service. However,  
18 Mr. Akmentins testifies further that, absent the WWISC, "to the extent we  
19 [VAWC] push this problem down the road, it is going to be an even greater cost  
20 and a steeper cost curve for customers to deal with." As such, Mr. Akmentins  
21 asserts that current rate making capabilities effectively push the problem of aging  
22 infrastructure down the road. However, according to Mr. Akmentins, a utility  
23 may recover investment "reasonably predicted to occur" in the rate year following

1 a base rate case and does not include the cost of replacing the asset in the future  
2 based on the sporadic failures and subsequent replacement. Mr. Akmentins  
3 further testifies, a utility is limited to charging rates that recovery only actual  
4 investment or costs reasonable predicted to be made prior to the end of its rate  
5 year.

6  
7 Based on the testimony of both Mr. Walsh and Mr. Akmentins, the WWISC  
8 would include filing a plan with the State Corporation Commission for the  
9 intended projects it wishes to undertake. Such WWISC plan would not be in  
10 response to investment related to sporadic failures and subsequent replacement.  
11 Therefore, as Mr. Walsh and Mr. Akmentins have testified, the WWISC is  
12 positioned to recover investment which is “reasonably predicted to occur” in the  
13 year following a filing of a WWISC. VAWC is already capable of recovering  
14 investment through base-rate filings.

15  
16 **18. Q. DO YOU AGREE WITH MR. AKMENTINS’ TESTIMONY THAT THE**  
17 **WWISC WILL REMAIN A SMALL PERCENTAGE OF THE TOTAL**  
18 **CUSTOMER BILL AND IS NOT EXPECTED TO EXCEED ABOUT 5%**  
19 **TO 7% OF A CUSTOMERS BILL?**

20 **A.** No. It is uncertain whether the WWISC will remain a small percentage of the  
21 total customer bill and not exceed about 5% to 7% of a customer’s bill. As I  
22 previously testified, studies by the United States Environmental Protection  
23 Agency and American Society of Civil Engineers estimated the necessary



1 investment in water and wastewater infrastructure in Virginia to be nearly \$6.7  
 2 billion and \$6.9 billion, respectively. Therefore, recognizing that VAWC's  
 3 responsibility is only a fraction of this total necessary investment, and that costs  
 4 will be spread over time and across VAWC's rate base, it is still reasonable to  
 5 believe that such infrastructure investments will be costly to VAWC's ratepayers.

6  
 7 **19. Q. CAN YOU POINT TO ANY ADDITIONAL EVIDENCE THAT THE**  
 8 **WWISC WILL HAVE NEGATIVE IMPACT ON RATEPAYERS?**

9  
 10 A. Yes, on July 14, 2005 the National Association of State Utility Consumer  
 11 Advocates (NASUCA) approved resolution 2005-03 "Infrastructure Surcharge  
 12 Resolution" that calls upon state regulatory authorities to refuse to allow rates for  
 13 infrastructure replacement programs such as the WWISC. A true copy of the  
 14 Resolution is submitted as Exhibit A. In relevant part, the NASUCA resolution  
 15 provides:

16  
 17 WHEREAS, traditional ratemaking methodologies have allowed investor shareholders  
 18 to earn a return on new and upgraded mains...through general rate case reviews  
 19 allowing the ratepayers being charged for the prudent and necessary system upgrades  
 20 to be represented in traditional contested rate proceedings in which all items of  
 21 expense and capital investments are considered; and

22 WHEREAS, depreciation provides a "funding" mechanism for...water, sewer....  
 23 replacement because it reduces net operating income and increases the revenue

1 required from rate payers for an acceptable rate of return during the formal rate  
2 proceeding; and

3 WHEREAS, traditional ratemaking processes have withstood the test of time, so that  
4 all parties represented have an opportunity to have their interests fairly  
5 represented; and

6 WHEREAS, parties representing the interests of shareholders and company  
7 managements may propose "short-circuit" methods focused on single categories of  
8 increased expense, in order to "speed up" the recovery of costs outside the normal  
9 regulatory process, and to provide regulators ways to avoid the rate review  
10 process; and

11 WHEREAS, utilities in several states have proposed, either in rate cases or as state  
12 legislation, various "tracking methodologies" which, if allowed, would enable them to  
13 increase rates through non-traditional ratemaking processes sometimes called DSIC  
14 (Distribution System Improvement Charge), DSR (Distribution System Replacement),  
15 AMRP (Accelerated Main Replacement Program) PRP (Pipeline Replacement Program)  
16 which would allow immediate rate recovery of capital investment for new projects on a  
17 year-by-year basis in order to replace certain rate base infrastructure through a  
18 surcharge; and

19 WHEREAS, if such tracking methodologies were allowed, regulatory authorities may  
20 not be able to review such capital investments for prudence, and may not be able to  
21 review possible offsetting contemporaneous cost reductions or revenue increases from  
22 other utility activities; and

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17

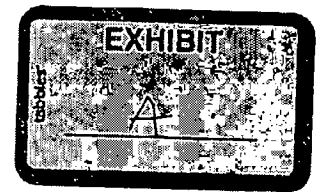
WHEREAS, if such tracking methodologies are allowed ratepayers will become involuntary investors paying for unreviewed investments that will increase rates;

WHEREAS, at a time of rising commodity costs, regulators need to understand the potential significant new burden upon consumers caused by a tracking surcharge for plant additions;

NASUCA's 2005 Resolution considers an infrastructure surcharge, such as the WWISC, counter to the interests of ratepayers by circumventing already available ratemaking methodologies that allow fair and prudent representation and review of ratepayers and allow utilities to seek funding for infrastructure investment. Such NASUCA resolution strongly encourages State utility commissions to refuse to allow such rates as the WWISC.

**20. Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

A. Yes.



NATIONAL ASSOCIATION  
OF STATE UTILITY  
CONSUMER ADVOCATES **NASUCA**

## Infrastructure Surcharge Resolution - 2005-03

### The National Association of State Utility Consumer Advocates Resolution 2005-03

#### INFRASTRUCTURE SURCHARGE RESOLUTION

**Calling upon state regulatory authorities and legislatures to refuse to allow, or to consider revoking, annual tracking adjustments to rates resulting from additional non-traditional gas, water, sewer or electric infrastructure replacement programs;**

*Whereas*, traditional ratemaking methodologies have allowed investor shareholders to earn a return on new and upgraded mains and electric plant through general rate case reviews allowing the ratepayers being charged for the prudent and necessary system upgrades to be represented in traditional contested rate proceedings in which all items of expense and capital investments are considered; and

*Whereas*, depreciation provides a "funding" mechanism for natural gas, water, sewer, and electric plant replacement because it reduces net operating income and increases the revenue required from rate payers for an acceptable rate of return during the formal rate proceeding; and

*Whereas*, traditional ratemaking processes have withstood the test of time, so that all parties represented have an opportunity to have their interests fairly represented; and

*Whereas*, parties representing the interests of shareholders and company managements may propose "short-circuit" methods focused on single categories of increased expense, in order to "speed up" the recovery of costs outside the normal regulatory process, and to provide regulators ways to avoid the rate review process; and

*Whereas*, utilities in several states have proposed, either in rate cases or as state legislation, various "tracking methodologies" which, if allowed, would enable them to increase rates through non-traditional ratemaking processes sometimes called DSIC (Distribution System Improvement Charge), DSR (Distribution System Replacement), AMRP (Accelerated Main Replacement Program) PRP (Pipeline Replacement Program) which would allow immediate rate recovery of capital investment for new projects on a year-by-year basis in order to replace certain rate base infrastructure through a surcharge; and

*Whereas*, if such tracking methodologies were allowed, regulatory authorities may not be able to review such capital investments for prudence, and may not be able to review possible offsetting contemporaneous cost reductions or revenue increases from other utility activities; and

*Whereas*, if such tracking methodologies are allowed ratepayers will become involuntary investors paying for unreviewed investments that will increase rates;

*Whereas*, at a time of rising commodity costs, regulators need to understand the potential significant new burden upon consumers caused by a tracking surcharge for plant additions;

**THEREFORE BE IT RESOLVED**, that NASUCA calls upon state regulatory authorities and legislators to refuse to impose on consumers, or to consider revoking, non-traditional infrastructure surcharges that would increase natural gas, water, sewer or electric utility bills without traditional opportunity for consideration of countervailing cost decreases and revenue increases, and review by all parties including appropriate consumer advocacy offices prior to implementation and to remain committed to traditional ratemaking principles fairly representing the interests of both consumers and stockholders.

**BE IT FURTHER RESOLVED**, that NASUCA authorizes its Standing Committees to develop specific positions and to take appropriate actions consistent with the terms of this resolution to secure its implementation, with the approval of the Executive Committee of NASUCA. The Standing Committees or the Executive Committee shall notify the membership of any action taken pursuant to this resolution.

Submitted by:

Michael D. Chrysler, Chair, Consumer Protection Committee

June 12, 2005

Approved by NASUCA

Place: New Orleans, LA

Date: June 14, 2005

84646

06/20/05

---

NATIONAL ASSOCIATION OF STATE UTILITY CONSUMER ADVOCATES

8380 Colesville Road, Suite 101

Silver Spring, MD 20910

Phone: (301) 589-6313

Fax: (301) 589-6380

e-mail: [nasuca@nasuca.org](mailto:nasuca@nasuca.org)

**CERTIFICATE OF SERVICE**

I hereby certify that on January 27, 2015, a copy of the foregoing was mailed to:

Richard D. Gary, Esq.  
Timothy E. Biller, Esq.  
Hunton & Williams, LLP  
Riverfront Plaza, East Tower  
851 East Byrd Street  
Richmond, VA 23219  
[tbiller@hunton.com](mailto:tbiller@hunton.com)

C. Meade Browder, Jr., Esq.  
Senior Assistant Attorney General  
Office of the Attorney General  
Division of Consumer Counsel  
900 East Main Street, Second Floor  
Richmond, VA 23219  
[mbrowder@oag.state.va.us](mailto:mbrowder@oag.state.va.us)

Frederick D. Ochsenhirt, Esq.  
Garland S. Carr, Esq.  
Office of the General Counsel  
State Corporation Commission  
PO Box 1197  
Richmond, VA 23218  
[garland.carr@scc.virginia.gov](mailto:garland.carr@scc.virginia.gov)

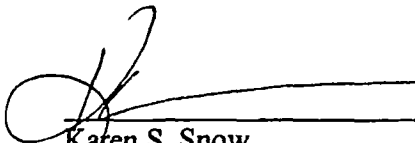
M. Ann Neil Cosby, Esq.  
Sands Anderson, PC  
1111 East Main Street  
P.O. Box 1998  
Richmond VA 23218-1320  
[ancosby@sandsanderson.com](mailto:ancosby@sandsanderson.com)

Michael J. Quinan, Esq.  
James G. Ritter, Esq.  
Christian & Barton, LLP  
909 East Main Street, Suite 1200  
Richmond, VA 23219  
[mquinan@cblaw.com](mailto:mquinan@cblaw.com)

Mark B. Callahan, Esq.  
Clark & Bradshaw, PC  
92 North Liberty Street  
Harrisonburg, VA 22802  
[callahan@clark-bradshaw.com](mailto:callahan@clark-bradshaw.com)

Roderick B. Williams, Esq.  
County Attorney  
County of Frederick, Virginia  
107 North Kent Street, 3<sup>rd</sup> Floor  
Winchester, VA 22601  
[rwillia@co.frederick.va.us](mailto:rwillia@co.frederick.va.us)

N. Reid Broughton  
Sands Anderson PC  
150 Peppers Ferry Rd, NE  
PO Box 2009  
Christiansburg, VA 24068  
[rbroughton@sandsanderson.com](mailto:rbroughton@sandsanderson.com)

  
Karen S. Snow