

150540100

STATE CORPORATION COMMISSION
RECEIVED
JUN 21 2016

Case No. PUE-2015-00097
Sponsor: CITIES OF HOPEWELL AND
ALEXANDRIA

Exhibit No. 21

Witness: CARL EGER, III
Bailiff: RENEE MILES

14805426025

WITNESS DIRECT TESTIMONY SUMMARY

Witness: Carl W. Eger, III

Title: Energy Manager for the City of Alexandria

Summary:

My testimony addresses concerns related to various components of the rate increase application (the "Application") filed by Virginia American Water Company ("Virginia-American" or the "Company"). Specifically, my testimony will address the following areas:

1. In regard to Rate of Return on Common Equity, I will explain that market conditions have changed only marginally since the Company's last rate filing. Additionally I will highlight a very recent rate case where the State Corporation Commission authorized a rate of return of 9.25% for another water company in Virginia. Further, I will also comment on the Company's American Water peer subsidiaries and their authorized rates of return.
2. In regard to the proposed Water and Wastewater Infrastructure Service Charge ("WWISC"), I will give a brief background on the WWISC in Virginia, I will discuss how the Company already has the ability to successfully invest in infrastructure replacement while also achieving appropriate returns through its current ratemaking abilities, and discuss how the current Application fails to establish that a WWISC is necessary.
3. In regard to the proposed Revenue Stabilization Mechanism ("RSM"), I will address why the proposed mechanism may not be specifically authorized by statute for water utilities, that it is inaptly applied to a water utility, and I will discuss why the proposed RSM is not helpful for customers and solely benefits the Company.
4. In regard to the Single-Tariff Pricing proposed in the Application, I will explain why cost of service ratemaking is best practice in utility ratemaking in order to ensure fair and reasonable rates and maintain affordability of water service, specifically with regard to the diverse systems throughout Virginia.

1605201025

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

APPLICATION OF)
)
VIRGINIA AMERICAN WATER COMPANY,)
)
For a general increase in rates)
)

CASE NO. PUE-2015-00097

DIRECT TESTIMONY OF CARL W. EGER III
ON BEHALF OF THE CITY OF ALEXANDRIA, VIRGINIA

May 6, 2016

Respectfully Submitted,
CITY OF ALEXANDRIA
By Counsel

Nicole S. Cheuk

Stefan M. Calos, Esquire (VSB No. 27405)
Andrew R. McRoberts, Esquire (VSB No. 31882)
Nicole S. Cheuk (VSB No. 71437)
Sands Anderson PC
1111 East Main Street, 24th Floor (23219)
Post Office Box 1998
Richmond, Virginia 23218-1988
Telephone: (804) 783-7211
Facsimile: (804) 783-7291
amcroberts@sandsanderson.com
scalos@sandsanderson.com
ncheuk@sandsanderson.com

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

1 Leadership in Energy and Environmental Design (“LEED”) Accredited Professional, and a
2 Certified Public Manager. In 2013, I completed Michigan State University Institute of Public
3 Utilities Annual Regulatory Studies Program (“Camp NARUC”) training. From 2012 to present,
4 I have served on the Virginia Energy Purchasing Government Authority (“VEPGA”) Board of
5 Directors. I serve on numerous other boards and commissions throughout the Metropolitan
6 Washington DC area, and in the Commonwealth of Virginia in service to the public.

7 From 2004 – 2006, I was Lead Engineer of the US Department of Energy Industrial
8 Assessment Center at the University of Dayton with specializations that include industrial
9 pumping systems, including water treatment and conveyance. From 2007 – 2008, I held A
10 position as Energy Manager for the City of Cleveland Division of Water before a promotion in
11 2008 to the position of Energy Manager for the City of Cleveland Mayor’s Office of
12 Sustainability.

13 **Q. PLEASE OUTLINE YOUR BACKGROUND WITH THE CITY OF**
14 **ALEXANDRIA.**

15
16 A. I joined the City of Alexandria in 2010 as Energy Manager. In 2011, I was promoted to
17 the City of Alexandria’s Senior Management Group. As Energy Manager a portion of my
18 responsibility includes servicing utility billings, including billings for water service, for City-
19 owned or -operated properties and facilities. Moreover, as Energy Manager my responsibilities
20 include providing guidance to the City of Alexandria City Council, City Attorney’s Office, and
21 City Manager’s Office on public utility regulatory matters.

1 Q. HAVE YOU PREVIOUSLY PROVIDED TESTIMONY BEFORE ANY
2 REGULATORY AGENCY AS TO MATTERS AFFECTING WATER UTILITY
3 COMPANIES?

4 A. Yes. I have previously testified before this Commission in case number PUE-2014-
5 00066.

6 Q. WHAT ISSUES DID YOU ADDRESS IN THAT PROCEEDING?

7 A. I testified as an expert witness on behalf of the City of Alexandria and its ratepayers, in
8 opposition to Virginia American Water Company's Petition for Rulemaking to Establish a Water
9 and Wastewater Investment Service Charge ("WWISC").

11 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

13 A. The purpose of my testimony is to supplement Wayne D. Trimble's testimony
14 specifically with regard to the City of Alexandria's concerns related to Virginia American Water
15 Company's (the "Company") proposed rate of return on common equity, the Water and
16 Wastewater Investment Service Charge ("WWISC"), Rate Stabilization Mechanism ("RSM"),
17 and consolidated revenue requirement and single tariff pricing.

19 Q. HAVE YOU REVIEWED THE DIRECT TESTIMON OF GARY L. AKMENTINS
20 AND PAUL R. HERBERT ON BEHALF OF VIRIGNIA AMERICAN WATER
21 COMPANY FILED IN THIS PROCEEDING?

23 A. Yes.

1809520025

1 **II. RATE OF RETURN ON COMMON EQUITY**

2
3 **Q. DO YOU HAVE ANY COMMENTS ON THE COMPANY'S REQUESTED RATE**
4 **OF RETURN ON COMMON EQUITY?**

5
6 **A.** Yes. I would like to discuss the Company's requested rate of return on common equity.
7 First, I will discuss the recent historical authorized rates of return on common equity. Second, I
8 will comment on authorized rate of return on common equity offered Aqua Virginia, Inc. in a
9 recent rate case (Case No. PUE-2014-00045) before this Commission. Finally, I provide
10 comment on the authorized rate of returns on common equity authorized to the Company's peer
11 subsidiaries by other regulatory commissions.

12
13 **Q. PLEASE COMMENT ON THE COMPANY'S RECENT HISTORICAL**
14 **AUTHORIZED RATES OF RETURN ON COMMON EQUITY.**

15
16 **A.** This is the Company's third rate case before this Commission since 2011. In Case No.
17 PUE-2010-00001, the Company proposed an authorized rate of return on common equity of
18 11.50% while the Commission authorized 10.10%; a reduction of 140 basis points.¹ Before this
19 Commission in Case No. PUE-2011-00127, the Company requested a rate of return on common
20 equity of 11.30% while the Commission authorized 9.75%; a reduction of 155 basis points.²

21 It is my opinion that market conditions have changed only marginally since the
22 Company's last rate case filing. Moreover, the Company consistently argues that it should be
23 authorized a higher rate of return because the water utility industry has a higher business risk due

¹ July 29, 2011 Order, Page 5.
² December 12, 2012 Final Order, Page 2.

180342095

1 to high operating leverage, demand uncertainty, decreasing per customer water sales, and supply
2 uncertainty. For customers in the City of Alexandria, at the very least, these issues are moot.
3 This is because the Alexandria district – similar to the Prince William County district – sources
4 its water supply from the Fairfax County Water Authority. Therefore, the Company has little
5 risk related to the availability and quality of source water supply. While baseline water use may
6 be decreasing slightly, the overall water rate base and water demand is increasing in the
7 Alexandria district due to substantial new residential and commercial development in areas of
8 the City of Alexandria including: Potomac Yard, Eisenhower West, Beauregard, Oakville
9 Triangle, Carlyle, and Old Town North.³ Finally, Alexandria district customers provide solid and
10 consistent revenue to the Company. These benefits in combination provide little rationale for the
11 Company to propose a rate of return on common equity any higher, though certainly
12 consideration should be given to the merits of the rate of return being lower, than the authorized
13 rate of return on common equity as the Commission ordered in Case No. PUE-2011-00127.

14

15 **Q. PLEASE COMMENT ON THE AUTHORIZED RATE OF RETURN ON**
16 **COMMON EQUITY IN RECENT CASE NUMBER PUE-2014-00045.**

17

18 A. On January 7, 2016, this Commission issued its Final Order in Case No. PUE-2014-
19 00045 regarding “Aqua Virginia, Inc. – Notice to file a general rate case regarding all water and
20 wastewater systems no sooner than August 1, 2014.”⁴ In its Final Order, the Commission
21 authorized Aqua Virginia, Inc. a rate of return on common equity range of 8.75% to 9.75% with
22 a midpoint of 9.25% to serve as the basis for setting rates. Over the course of testimony and

³ City of Alexandria Department of Planning and Zoning – Neighborhood Planning,
<https://www.alexandriava.gov/planning/info/default.aspx?id=6688>.
⁴ January 7, 2016 Final Order, Page 4.

1 hearing, Aqua Virginia, Inc. appears to have used a similar Proxy Group of water utilities to that
 2 of the Company as proposed in this rate case. As such, the Commission should consider a similar
 3 equity range and 9.25% as the basis for setting rates.

4

5 **Q. PLEASE COMMENT ON THE AUTHORIZED RATE OF RETURN ON**
 6 **COMMON EQUITY FOR THE COMPANY'S AMERICAN WATER PEER**
 7 **SUBSIDIARIES.**

8

9 A. According to literature published by the Company's parent holding company – American
 10 Water (NYSE: AWK) – peer subsidiaries achieved authorized rates of return on common equity
 11 between 9.34% and 10.25% over the past 3.5 years with the arithmetic average being 9.81%.⁵
 12 The table below provides a list of the Company's peer subsidiaries and the authorized rate of
 13 return on common equity that each has been extended.

Subsidiary	Date	Authorized ROE
California American Water	1/1/2015	9.99%
Illinois American Water	10/1/2012	9.34%
Indiana American Water	1/29/2015	9.75%
Kentucky American Water	10/25/2013	9.70%
Missouri American Water	4/1/2012	10.00%
New Jersey American Water	9/21/2015	9.75%
New York American Water	4/1/2012	9.65%

⁵ American Water Investor Presentation – March 2016, Page 34
<http://ir.amwater.com/Cache/1500082004.PDF?Y=&O=PDF&D=&fid=1500082004&T=&iid=4004387>.

Pennsylvania American Water	1/1/2014	10.25%
Virginia American Water	12/12/2012	9.75%
West Virginia American Water	10/11/2013	9.90%
Average		9.81%
Min		9.34%
Max		10.25%

1

2 It is curious that the Company's proposed rate of return on common equity is nearly 100
3 basis points higher than the arithmetic average, and 50 basis points higher than the maximum, of
4 its peer subsidiaries. Arguably the business risk experienced by the Company's many peers is
5 much higher for their respective service territories and should support dutiful compensation for
6 bearing such risk. Given the stability and lower business risk within the Commonwealth of
7 Virginia (including the stability and growth within Alexandria district, the Company's largest),
8 the Company's proposal for such a high rate of return on common equity -- 10.75% -- is
9 unsupportable.

10

190649025

1 **III. WATER AND WASTEWATER INFRASTRUCTURE SURCHARGE**

2 **Q. DO YOU HAVE CONCERNS WITH THE COMPANY'S PROPOSED WATER**
3 **AND WASTEWATER INVESTMENT SERVICE CHARGE (WWISC)?**

4
5 **A. Yes. I have several concerns with the Company's proposed Water and Wastewater**
6 **Investment Service Charge ("WWISC"). First, I would like to provide brief background on the**
7 **WWISC.**

8 In 2014, the Company, along with Aqua Virginia, LLC. and Massanutten Public Service
9 Corporation, – hereafter referred to as the "Petitioners" - submitted an application to the
10 Commission to consider a rulemaking to implement a WWISC⁶. As proposed, this WWISC
11 would stand as a separate charge up to and beyond base rates and serve to collect sufficient
12 revenue for investment in replacement of capital, non-revenue producing infrastructure; namely
13 transmission and distribution infrastructure, meters, hydrants, etc. The City of Alexandria, along
14 with numerous other cities and counties in the Commonwealth of Virginia located within the
15 service territories of the Petitioners, opposed the rulemaking on several grounds; including but
16 not limited to: 1) the Commission's lack of statutory authority to approve such a charge without
17 express permission of the Virginia General Assembly, 2) that the WWISC was fundamentally
18 contrary to the public interest, and 3) that the Petitioners did not demonstrate the need for the
19 WWISC up to and beyond their current abilities through rate cases proceedings such as this one.

20 Based on arguments of City of Alexandria and other participants, and conversely based
21 on a lack of evidence justifying the Petitioners' need, the Commission ruled against the
22 Petitioners. The Commission's Final Order dated September 9, 2015, outlines their reasoning for
23 the ruling:

⁶ Case No. PUE-2014-00066.

1 We agree with the Hearing Examiner's finding that the Proposed Rules need
 2 not, and should not, be implemented. Petitioners have neither asserted that the
 3 Commission is legally required to promulgate such rules, nor that the proposed
 4 rules are legally necessary in order for water and wastewater companies to
 5 have a reasonable opportunity to recover necessary infrastructure
 6 investment... **we find that the need for such investment, along with the**
 7 **appropriate recovery thereof, can be reasonably addressed on a case-by-**
 8 **case basis wherein the Commission and interested parties may consider**
 9 **the specific circumstances attendant to each utility...**"the absence of
 10 established rules would provide the water and wastewater companies,
 11 Commission, and participants a greater degree of flexibility to tailor the
 12 surcharge to the specific utility, facts, and circumstances."...we conclude that
 13 the evidence and arguments in this record support the Commission's finding
 14 not to adopt a set of rules by which water and wastewater utilities may
 15 establish a rate surcharge designed to recover costs associated with
 16 infrastructure replacement... **this finding does not represent a rejection of**
 17 **infrastructure replacement, and these utilities may seek approval and**
 18 **recovery of such surcharges pursuant to relevant Virginia statutes**
 19 [emphasis added].⁷

20 Immediately after the Commission's ruling in PUE-2014-00066, the Company filed the
 21 Application in this rate case (PUE-2015-00097). While the Commission acknowledges that such
 22 infrastructure investment mechanisms such as the WWISC will be considered on a case-by-case
 23 basis the Company's immediate request for the WWISC as part of this case when no material

⁷ <http://www.scc.virginia.gov/docketsearch/DOCS/346%25011.PDF>

1508520925

1 facts have changed since the Commission's Final Order in PUE-2014-00066, is hasty and
2 gratuitous.

3

4 **Q. DO YOU TAKE ISSUE WITH THE COMPANY'S DESIRE TO REPLACE**
5 **INFRASTRUCTURE?**

6

7 A. Certainly not. The City of Alexandria acknowledges the Company's desire to replace and
8 update their infrastructure. However, as opposed to a separate, single-tariff method which is
9 fraught with issues and questionable public protections (as previously discussed in PUE-2014-
10 00065), the Company already has the ability to successfully invest in infrastructure replacement
11 while commensurately achieving appropriate returns through its current ratemaking abilities.
12 Such abilities already afforded to the Company also provide the necessary protections for the
13 public's interests of fair, reasonable, and prudent rates and costs. This was the ruling of Senior
14 Hearing Examiner Alexander F. Skirpan, Jr. in the previous rulemaking case heard before this
15 Commission in Case No. PUE-2014-00066.⁸

16

⁸ Hearing Examiner Report, PUE-2014-00066, at 52.

1605201025

IV. REVENUE STABILIZATION MECHANISM

Q. WHAT CONCERNS IF ANY, DO YOU HAVE WITH THE COMPANY'S REVENUE STABILIZATION MECHANISM AS IT RELATES TO THE CITY OF ALEXANDRIA?

A. A primary driver of this base rate case is the Company's assertion of declining water use per customer. The Company argues its cost and revenue structures are misaligned and significantly affected by this declining water use trend; much of its costs are fixed with a low variable cost per unit of delivered water while much of its revenues are variable per unit of delivered water and fixed revenue is low. One strategy the Company introduces to resolve some of this misalignment is a decoupling mechanism called the Revenue Stabilization Mechanism (RSM).

Q. CAN YOU PLEASE DESCRIBE DECOUPLING MECHANISMS SUCH AS THE COMPANY'S PROPOSED RATE STABILIZATION MECHANISM (RSM), AND EXPLAIN WHY THEY ARE INAPPROPRIATE HERE?

A. Yes. A growing trend in public utility regulation is the movement towards decoupling. Decoupling is a policy that disconnects a utility's collected revenues from the volumetric billing sales of a commodity from a utility's target revenues. To date, many states have implemented decoupling policies with primary application towards the electric and natural gas utilities. Notably, very few states have implemented decoupling policies for water utilities. There are good, sound policy reasons why few water utilities have or need a decoupling mechanism such as an RSM. In some states, non-water utilities, such as natural gas and sometimes power utilities,

52002509T
160520025

1 find that there are severe swings in weather which cause spikes in costs. These spikes in costs
2 can be recovered by the utilities in rate-making proceedings but are difficult to bear for
3 customers. By uncoupling mechanisms, these states and utilities provide more stable rates for the
4 customers. In contrast, these policy reasons are absent here. Wide swings in cost of providing
5 water to customers in Virginia are far less of a concern, and in the case of the Company and the
6 City of Alexandria, the Company's biggest customer base, unheard of. Stable water supply at
7 stable rates come from Fairfax County Water Authority. The proposed RSM is unhelpful to the
8 customers here, and only the Company stands to benefit.

9

10 **Q. TO ILLUSTRATE YOUR POINT, DO ANY VIRGINIA UTILITIES HAVE A**
11 **REVENUE STABILIZATION MECHANISM?**

12 A. Yes. In Virginia, natural gas utilities – specifically Washington Gas – have a revenue
13 stabilization mechanism called the Weather Normalization Adjustment (WNA). Washington
14 Gas' WNA is utilized as a means to reduce volatility of customers' natural gas bills due to year-
15 over-year weather variance and is delivered as either a credit or surcharge depending on the
16 weather conditions of the prior winter heating season of any calendar year. While advertised as a
17 benefit to consumers, the primary intent is to balance out any excess revenues and losses of the
18 utility due to the uncontrolled impact of weather on the volumetric use of natural gas by
19 consumers. The WNA provides customers with relief during extremely cold years and
20 Washington Gas with the revenue it needs to recoup fixed costs associated with meter reading,
21 maintenance, postage and safety during extremely warm years.⁹

22

⁹ <http://www.washgas.com/pages/VirginiaWNA>

1 Q. IS THERE STATUTORY AUTHORITY FOR WASHINGTON GAS'S WEATHER
2 NORMALIZATION ADJUSTMENT?

3
4 A. Yes. § 56-602 of the *Code of Virginia*, 1950, as amended, expressly provides for a natural
5 gas utility to levy a rate stabilization mechanism, reflecting Washington Gas's WNA.

6
7 Q. DOES THE COMPANY HAVE STATUTORY AUTHORITY FOR A REVENUE
8 STABILIZATION MECHANISM FOR WATER UTILITIES?

9 A. The Code of Virginia does not provide a similar statutory mechanism for water utilities.

10

11 **V. CONSOLIDATED REVENUE REQUIREMENT AND SINGLE TARIFF PRICING**

12 Q. IS A CONSOLIDATED REVENUE REQUIREMENT AND SINGLE TARIFF IN
13 THE PUBLIC'S BEST INTEREST?

14

15 A. No. In past rate cases, the Company based its revenue requirement and rates for each
16 water system according to the cost-of-service ratemaking principles. This is a best practice in
17 utility ratemaking in order to ensure fair and reasonable rates to the Company's customers and
18 maintain affordability of water service. However, in this proceeding the Company deviates from
19 this utility ratemaking best practice of cost-of-service ratemaking. According to the testimony
20 from Gary Akmentins, the Company proposes a process to be implemented over time to move
21 toward a consolidate revenue requirement for the Company as a whole and utilize a single tariff
22 across all of its service districts. For this rate case, the Company introduces a single tariff for two
23 of its service districts – the Alexandria District and the Prince William District.

24

1 In his testimony, Mr. Akmentins discusses the Company's rationale for consolidated
2 revenue requirement and rates.¹⁰ Mr. Akmentins' justification for this includes "customers pay a
3 utility the same rate for similar service".¹¹

4 Mr. Akmentins' definition of similar service appears to primarily reflect the Company's
5 business and administrative services and not include the actual delivery of quality water.
6 However, if Mr. Akmentins' definition of similar service reflects the actual delivery of quality
7 water commodity, it necessarily follows that the characteristics of the Company's service
8 districts must be taken into account in the ratemaking process. Each of the Company's four water
9 districts are not contiguous and have different plant-in-service, transmission and distribution
10 infrastructure, and different requirements for source and distribution water treatment for delivery
11 to its customers. As such, while customers enjoy the economy of scale from common business
12 and administrative services, there isn't commonality in the water system which actually provides
13 water to their residence or business location. As such, cost-of-service for each service district
14 should be the basis for the company's revenue requirement for each service district and the costs
15 that customers should ultimately pay.

16 Further in his testimony, Mr. Akmentins cites a policy recommendation by the Virginia
17 Joint Legislative Audit and Review Commission ("JLARC") to implement single-tariff pricing.
18 This policy recommendation comes from a November 2006 study "Performance and Oversight
19 of Virginia's Small Community Drinking Water Systems" established during the 2006 General
20 Assembly session per Senate Joint Resolution 82.^{12,13,14} This Senate Joint Resolution 82 directed

¹⁰ Direct Testimony of Gary Akmentins, pg. 37, line 6

¹¹ Ibid., line 22

¹² Id., line 29

¹³ <http://jlarc.virginia.gov/pdfs/reports/Rpt351.pdf>

¹⁴ <https://lis.virginia.gov/cgi-bin/legp604.exe?061+sum+ SJ82>

1 “the Legislative Audit and Review Commission to study *very small and small community water*
2 *systems* in Virginia. The Commission shall determine whether the needs of Virginia’s citizens
3 are being met through the existing regulatory scheme with regard to both water quality and rates
4 charged and shall make recommendations on very needed improvements.” One of the key
5 findings of this study is “the rate approval process for private water systems could be improved
6 through coordination between the State Corporation Commission and the [Virginia Department
7 of Health]. Consolidation could be encouraged through the increased use of rate structures that
8 enable water utilities to spread costs across multiple systems.” (emphasis added) Mr. Akmentins
9 does not consider the intentional focus of the studies' results on very small and small community
10 water systems. Therefore, according to a commonly held understanding of very small and small
11 water community water systems, the Company’s four water districts do not qualify. No matter
12 the measure - be it volume of water treated or distributed, sales and revenue, etc. – in no way
13 does the system serving the Alexandria district qualify as a very small or small water system.
14 Throughout Virginia, very small and small community systems may serve several hundred water
15 customers at most. In contrast, the Company’s four water districts serve thousands of customers
16 each.

17 Mr. Akmentins notes that the goals of a consolidated revenue requirement and single
18 tariff for all the Company’s customers are to “protect against rate shock, address small system
19 viability issues, and control administrative costs for the utility and agencies that regulate it.”¹⁵
20 For Alexandria customers, their rate shock is due to the introduction of a consolidated revenue
21 requirement and rate tariff as Alexandria customers are now paying more than they otherwise
22 should if the Company were using best-practice cost-of-service ratemaking principles. This is
23 exemplified by Mr. Herbert’s testimony which demonstrates that Alexandria customers will be

¹⁵ Direct Testimony of Gary Akmentins, pg. 37, Line 23

1 paying more than they otherwise should in the future as the Company proposes to implement a
2 consolidated revenue requirement and single tariff.¹⁶ As previously stated, the Company's four
3 water districts are not small by any reasonable measure and small-system viability issues are not
4 of issue. Finally, it is appreciated that the Company looks to control administrative costs for the
5 utility and agencies that regulate it. However, the Company's desire to control administrative
6 costs is actually counter to the best interest of customers. As the Company deviates from best
7 practice cost-of-service ratemaking, the Commission's goal to adjudicate fair and reasonable
8 rates is put in jeopardy.

9
10

¹⁶ Direct Testimony of Mr. Herbert, pg. 12, line 15

1500083300

VI. CONCLUSION

Q. MR. EGER, DO YOU HAVE ANY OTHER COMMENTS?

A. Yes. In this ratemaking case, the Company proposes several single-issue tariffs up to and beyond the traditional ratemaking focus, including the Water and Wastewater Investment Service Charge (WWISC), a Revenue Stabilization Mechanism (RSM), consolidation of revenue requirements and application of a single tariff across all the Company's service districts. In its 2015 Annual Report to investors, the Company's parent – American Water Works Corporation (NYSE: AWK) – highlights that its “Regulated Businesses support regulatory practices at the PUCs [Public Utility Commissions] and state legislatures that mitigate the adverse impact of regulatory lag”.¹⁷ The Company's parent further states to its primary audience of investors that “[W]e pursue or seek enhancement to these regulatory practices as part of our rate case management program to facilitate efficient recovery of our costs and investments, in order to provide safe, reliable and affordable services to our customers. The ability to seek regulatory treatment as described above does not guarantee that the state PUCs will accept our proposal in the context of a particular rate case, and these practices may reduce, but not eliminate, regulatory lag associated with traditional rate making processes. It is also our strategy to expand their use in areas where they may not currently apply.”¹⁸ The enhancements to regulatory practice that the Company's parent speaks to include: infrastructure replacement surcharges (i.e. WWISC), revenue stability mechanisms (i.e. RSM), and consolidated tariffs (i.e. Consolidated Revenue Requirement and Single Tariff).

¹⁷ American Water 2015 Annual Report, pg. 6:
<http://ir.amwater.com/Catchc/1500083300.PDF?Y=&O=PDF&D=&fid=1500083300&T=&iid=4004387>.

¹⁸ *Id.*



1 By and large, regulatory lag serves as an appropriate check and balance for regulated
2 utilities and Commissions to ensure fair and reasonable rates for customers while ensuring the
3 ability for regulated utilities to pursue a fair return. Regulatory lag requires balance between a
4 regulated utility and the Commission. However, the traditional ratemaking process already
5 provides this balance and the Company has not demonstrated that any of the proposed
6 enhancements are necessary. As such, based on the Company's parent's most recent annual
7 report – which focuses on communications with investors and investor relations on behalf of the
8 Company – it appears as if the primary goals are to enhance investor relations as opposed to
9 using such enhancements to materially improve the quality of service and maintain affordability
10 of the water services the Company provides to its customers. These enhancements are not in the
11 best interests of the Company's customers or the Commonwealth.

12

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

14 **A. Yes.**

20160506

CERTIFICATE OF SERVICE

I hereby certify that on this 6th day of May, 2016, a copy of the foregoing was mailed by first-class postage prepaid to:

Lonnie D. Nunley, III, Esquire
Timothy E. Biller, Esquire
Richard D. Gary, Esquire
Hunton & Williams LLP
951 East Byrd Street
Richmond, Virginia 23219-4074

Steven L. Micas, Esquire
County Attorney
6602 Courts Drive
Prince George, Virginia 23860

C. Meade Browder, Jr., Esquire
Sr. Assistant Attorney General
Kiva Bland Pierce, Esquire
Assistant Attorney General II
Office of the Attorney General
Division of Consumer Counsel
900 East Main Street, Second Floor
Richmond, Virginia 23219

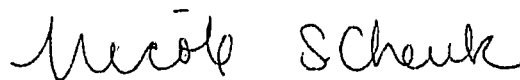
William H. Chambliss, Esquire
Commission's Office of General Counsel and
Divisions of Energy Regulation and Utility
Accounting and Finance
Tyler Building, 10th Floor
1300 E. Main Street
Richmond, Virginia 23219

James L. Banks, Jr., Esquire
Karen Snow, Esquire
Alexandria City Attorney's Office
301 King Street, Suite 1300
Alexandria, Virginia 22314

M. Ann Neil Cosby, Esquire
McGuireWoods
Gateway Plaza
800 East Canal Street
Richmond, Virginia 23219-3916

Prince William County Attorney
One County Complex Court
Prince William, Virginia 22192

James G. Ritter, Esquire
Cliona Robb, Esquire
Christian & Barton, LLP
909 East Main Street, Suite 1200
Richmond, Virginia 23219



Nicole S. Cheuk, Esquire