

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

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STAFF REPORT

PETITION OF
CITY OF CHESAPEAKE
AND
AQUA VIRGINIA, INC.

For approval of a transfer of utility assets

Prepared by:

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Division of Utility Accounting and Finance

Case No. PUR-2018-00184

February 15, 2019

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STAFF REPORT

INTRODUCTION

PETITION

On November 21, 2018, the City of Chesapeake, Virginia ("City"), and Aqua Virginia, Inc. ("Aqua") (collectively, "Petitioners"), filed a joint petition ("Petition") with the State Corporation Commission ("Commission"), pursuant to Chapter 5 of Title 56 of the Code of Virginia ("Code"),¹ seeking authority for Aqua to dispose of and for the City to acquire certain waterworks utility assets (as defined in this Petition under "Assets") to provide water service to customers residing within the Indian River subdivision located within the City ("Proposed Transfer"). The Assets constitute a waterworks system ("System"), which serves approximately 505 individual connections.²

On December 20, 2018, the Commission issued an Order for Notice and Comment, which docketed the matter as Case No. PUR-2018-00184, required the Petitioners to provide public notice of the Proposed Transfer, provided an opportunity for interest persons to file a notice of participation and request a hearing on the Petition, and established a procedural schedule for the Petition. The Petitioners provided public notice of the Proposed Transfer to Aqua's customers in the service area of the System. On January 14, 2019, comments were filed by Friends of Indian River and provided their support for the Proposed Transfer.

PETITIONERS

¹ Va. Code § 56-88 *et seq.* ("Utility Transfers Act").

² A map of the System's service area is provided in the Petition as Exhibit A.

Aqua is an investor owned water and wastewater public service company operating under the laws of the Commonwealth of Virginia and regulated pursuant to Chapter 10 of Title 56 of the Code of Virginia. Aqua currently owns and operates the System.

The City is a municipal corporation and political subdivision of the Commonwealth of Virginia. The Petition states that the System's service area is located within the boundaries of the City.

PROPOSED TRANSFER

On October 18, 2018, the Petitioners, through arms-length negotiations, entered into a purchase agreement ("Purchase Agreement") whereby the City agreed to purchase and Aqua agreed to sell, all of the System's Assets for roughly \$1.93 million. The Petition states that the System's Assets appear to be in sound condition and that both the City and Aqua believe that the price for the Proposed Transfer to be fair and reasonable.

The Petitioners state that the Proposed Transfer will be transparent to customers and that the customers' service will not be interrupted. The Petitioners go on to state that the both parties have determined that their respective interests and those of the customers, will be best served by consummating the Proposed Transfer.

RATES AND SERVICE

The Petition states that the City proposes to incorporate the System into its existing utility rate and fee structure in accordance with Article IV of Chapter 78 of the Chesapeake City Code.³ The Petitioners represent that the applicable rates and fees will take effect after closing of the Proposed Transfer and that after the consummation of the Proposed Transfer, the City will not

³ A current copy of Article IV of Chapter 78 of the Chesapeake City Code is attached to the Petition as Exhibit C.

charge existing System customers any additional miscellaneous charges.⁴ The Petition also states that the City will not charge existing customers a connection fee.⁵ Petitioners further state that there will be no impairment of adequate service at just and reasonable rates.

The City proposes to operate the System Assets with no anticipated upgrades or improvements other than routine operation and maintenance. However, after closing of the Proposed Transfer and on a date still to be determined, the City plans to incorporate certain Assets into the City's water distribution system and cease operation of the wells and treatment systems.

The Petitioners represent that the City possesses the resources to successfully operate the System and provide quality service to customers. In addition, the Petition states that the City has the financial, technical, and managerial qualifications to own and operate the System.

CONCLUSION AND RECOMMENDATION

Based on the Petitioners' representation that: (1) the City will maintain and operate the System and (2) the System's customers will enjoy the benefits of being served by a common water and wastewater services provider, the Proposed Transfer will not impair or jeopardize the provision of adequate service at just and reasonable rates and, therefore, meets the standard of the Utility Transfer Act. Therefore, Staff recommends approval of the Proposed Transfer. Staff further recommends that a Report of Action, which should include the date the Proposed Transfer is consummated, be filed with the Commission within ninety (90) days after the closing of the Proposed Transfer. Staff also recommends that the transferred System's certificates be canceled upon notice that the Proposed Transfer has been consummated.

⁴ Upon closing of the Proposed Transfer, the Petitioners note that rates will be prorated, as necessary.
⁵ The Petition states that new System customers who connect after the closing of the Proposed Transfer will be charged a connection fee.