

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
AT RICHMOND, APRIL 18, 2016

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PETITION OF

APPALACHIAN POWER COMPANY

CASE NO. PUE-2016-00024

For revision of a rate adjustment clause pursuant
to § 56-585.1 A 6 of the Code of Virginia
with respect to the Dresden Generating Plant

ORDER FOR NOTICE AND HEARING

On March 31, 2016, Appalachian Power Company ("APCo" or "Company"), pursuant to § 56-585.1 A 6 of the Code of Virginia ("Code"), the Commission's Rules Governing Utility Rate Applications and Annual Informational Filings, 20 VAC 5-201-10 *et seq.* ("Rate Case Rules"), and the Commission's Final Order in Case No. PUE-2013-00009,¹ filed with the State Corporation Commission ("Commission") a petition ("Petition") for approval to continue, with modification, a rate adjustment clause ("RAC"). The RAC, designated the "G-RAC," is designed to recover the costs of APCo's Dresden Generating Plant ("Dresden"), a 580 megawatt natural gas-fired combined cycle generating plant located in Dresden, Ohio.²

In Case No. PUE-2011-00036, the Commission approved the initial G-RAC, which allowed APCo to recover its costs associated with the Company's acquisition and operation of

¹ *Petition of Appalachian Power Company, For revision of a rate adjustment clause pursuant to § 56-585.1 A 6 of the Code of Virginia with respect to the Dresden Generating Plant*, Case No. PUE-2013-00009, 2013 S.C.C. Ann. Rept. 357, Final Order (Dec. 17, 2013) ("2013 G-RAC Order").

² APCo acquired Dresden from AEP Generating Company, an affiliate of APCo, in 2011. *See Application of Appalachian Power Company, AEP Generating Company, and American Electric Power Company, Inc., For authority to enter into affiliate transactions under Title 56, Chapter 4 of the Code of Virginia*, Case No. PUE-2011-00023, 2011 S.C.C. Ann. Rept. 452, Order Granting Authority (July 20, 2011).

Dresden.³ APCo states that it placed Dresden into service on January 31, 2012, and implemented the initial G-RAC factors effective March 1, 2012.⁴

In Case No. PUE-2012-00036, the Commission found that the then current G-RAC rates should remain unchanged, using the same overall ROE of 11.4%.⁵ In the 2013 G-RAC Order, the Commission approved a base revenue requirement of \$29,660,771, and a true-up component of \$9,759,512, based on a ROE of 11.4%.⁶ In accordance with the Stipulation approved by the Commission in the 2013 G-RAC Order, and pursuant to the Commission's Final Order in Case No. PUE-2014-00026, APCo began using a 9.7% base ROE plus the 100 basis point enhancement, resulting in an overall ROE of 10.7%, effective November 30, 2014.⁷

In this proceeding, APCo proposes a projected base annual revenue requirement of approximately \$28.6 million, for the 12 months ending February 28, 2018, to be recovered

³ *Petition of Appalachian Power Company, For approval of a rate adjustment clause pursuant to § 56-585.1 A 6 of the Code of Virginia to recover the costs of the Dresden Generating Plant*, Case No. PUE-2011-00036, 2012 S.C.C. Ann. Rept. 254, Final Order (Jan. 3, 2012). Specifically, the Commission authorized APCo to implement its first G-RAC on March 1, 2012, with rates designed to collect an annual revenue requirement of \$26,098,451. The Commission adopted the base return on equity ("ROE") of 10.4% approved in the Company's 2011 Biennial Review proceeding (*See Application of Appalachian Power Company, For a 2011 biennial review of the rates, terms and conditions for the provision of generation, distribution and transmission services pursuant to § 56-585.1 A of the Code of Virginia*, Case No. PUE-2011-00037, 2011 S.C.C. Ann. Rept. 477, Final Order (Nov. 30, 2011)), and the 100 basis point ROE enhancement provided by § 56-585.1 A 6 for the first ten years of Dresden's service life, resulting in a total ROE of 11.4%.

⁴ Petition at 3.

⁵ *Application of Appalachian Power Company, For approval of a rate adjustment clause: Rider G, Dresden Generating Plant*, Case No. PUE-2012-00036, 2012 S.C.C. Ann. Rept. 428, Final Order (Dec. 20, 2012).

⁶ Petition at 3; 2013 G-RAC Order, 2013 S.C.C. Ann. Rept. at 358-59.

⁷ Petition at 3-4. *See Application of Appalachian Power Company, For a 2014 biennial review of the rates, terms and conditions for the provision of generation, distribution and transmission services pursuant to § 56-585.1 A of the Code of Virginia*, Case No. PUE-2014-00026, 2014 S.C.C. Ann. Rept. 392, Final Order (Nov. 26, 2014).

through the G-RAC base factor.⁸ The Company also seeks recovery, through the true-up factor, of an under-collection of G-RAC-related costs of approximately \$4.3 million for the period of February 1, 2012, through February 29, 2016, offset by a projected adjusted over-recovery of approximately \$0.6 million for the period of March 1, 2016, through February 28, 2017.⁹

Accordingly, the proposed G-RAC factors, if approved, are expected to recover in total a revenue requirement of approximately \$32.3 million for the period of March 1, 2017, through February 28, 2018, an increase of approximately \$3.4 million above the revenues produced by the currently approved G-RAC factors, which represents an increase to the average residential customer's monthly bill of \$0.33, or about 0.3%.¹⁰ The Company proposes that only the G-RAC base factor would remain in effect after March 2018, until further order of the Commission, and the Company would file its next G-RAC petition no later than March 31, 2019, unless the cumulative over-/under-recovery level exceeds \$5 million for each month of two consecutive quarterly reporting periods.¹¹

In its Petition APCo also requests that the Commission waive, in part, the requirements set forth in Rate Case Rules 20 VAC 5-201-60 and 20 VAC 5-201-90, with respect to Filing

⁸ Petition at 4; Pre-filed Direct Testimony of Jennifer B. Sebastian ("Sebastian Direct") at 3-4. The Company calculated its projected revenue requirement using an overall ROE of 10.7%. Simultaneous with filing its Petition in this case, however, the Company filed a petition pursuant to § 56-585.1:1.C.1 of the Code to determine the fair rate of return on common equity that will be applicable to rate adjustment clauses under § 56-585.1 A 6 of the Code. *See Petition of Appalachian Power Company, For the determination of the fair rate of return on common equity to be applied to its rate adjustment clauses*, Case No. PUE-2016-00038 (filed March 31, 2016). The Company states in its Petition that it anticipates the ROE applicable to the G-RAC may change as of the date of the Commission's final order in that proceeding. Sebastian Direct at 10.

⁹ Petition at 4; Sebastian Direct at 4.

¹⁰ Petition at 4.

¹¹ Sebastian Direct at 5, 8-9.

Schedules 45 and 46.¹² Schedule 45 requires investor-owned electric utilities to provide documentation supporting the return on equity benchmark proposed pursuant to § 56-585.1 A 2 of the Code, including information on potential peer group utilities. APCo states that because it filed, simultaneously with this Petition, a petition pursuant to § 56-585.1:1.C.1 for the determination of the ROE that will be applicable to the G-RAC and other rate adjustment clauses, which is accompanied by Schedule 45, APCo requests waiver of the Schedule 45 requirements in this case. APCo states further that such waiver will not preclude the Commission Staff ("Staff") or any other party from raising questions about the fair and appropriate ROE.¹³

Schedule 46 requires electric utilities to provide a schedule of all projected costs with a rate adjustment clause proposed pursuant to § 56-585.1 A 6 of the Code. Schedule 46 also requires, among other things, information relative to the need for, prudence of, and reasonableness of generating unit additions. APCo proposes to provide the information required in Schedule 46 to the extent it relates to any changes in projected costs and all new or changed contracts relating to Dresden with a value greater than \$75,000, along with a list of contracts with a value of less than \$75,000.¹⁴

¹² Petition at 5.

¹³ *Id.*

¹⁴ *Id.* at 5. In addition, the Company requests permission to provide such information directly to Staff on a compact disk, accompanied by one printout of all documents, on the basis that the information "is both confidential and extremely voluminous." *Id.* The Company notes that the Commission granted a similar request in the 2013 G-RAC proceeding. See *Petition of Appalachian Power Company, For revision of a rate adjustment clause pursuant to § 56-585.1 A 6 of the Code of Virginia with respect to the Dresden Generating Plant*, Case No. PUE-2013-00009, Doc. Con. Cen. No. 130440194, Order for Notice and Hearing at 6 (Apr. 26, 2013).

On March 31, 2016, the Company also filed a Motion for Protective Ruling and a proposed protective order that establishes procedures governing the use of confidential information in this proceeding.

NOW THE COMMISSION, having considered this matter, is of the opinion and finds that the Company should provide public notice of its Petition; a public hearing should be scheduled for the purpose of receiving testimony and evidence on the Company's Petition; a procedural schedule should be established to allow interested persons an opportunity to file written or electronic comments on the Company's Petition or to participate in this proceeding as a respondent; and the Staff should be directed to investigate the Petition and file testimony and exhibits containing its findings and recommendations on the Petition.

Under the limited circumstances of this case, we grant APCo's request to waive the filing of Schedule 45 for purposes of commencing this proceeding. We also grant APCo's request for a limited waiver of the Schedule 46 filing requirement.¹⁵

Further, we find that a Hearing Examiner should be assigned to conduct all further proceedings on behalf of the Commission, including ruling on the Company's Motion for Protective Ruling and filing a final report containing the Hearing Examiner's findings and recommendations.

Accordingly, IT IS ORDERED THAT:

- (1) This matter is docketed and assigned Case No. PUE-2016-00024.

¹⁵ The Commission also will grant a limited waiver to Rule 5 VAC 5-20-150 of the Commission's Rules of Practice and Procedure ("Rules of Practice"), 5 VAC 5-20-10 *et seq.*, to permit APCo to provide a compact disk directly to Staff in lieu of paper copies of the information required by Schedule 46, as modified by our waiver.

(2) As provided by Rate Case Rule 20 VAC 5-201-10 E and the Commission's Rules of Practice, the Company's request for waivers is granted to the extent discussed and otherwise denied.

(3) As provided by § 12.1-31 of the Code and Rule 5 VAC 5-20-120, *Procedure before hearing examiners*, of the Commission's Rules of Practice, a Hearing Examiner is appointed to conduct all further proceedings in this matter on behalf of the Commission and to file a final report.

(4) A public hearing shall be convened at 10 a.m. on September 20, 2016, in the Commission's second floor courtroom located in the Tyler Building, 1300 East Main Street, Richmond, Virginia 23219, to receive into the record the testimony of public witnesses and the evidence of the Company, any respondents, and the Staff.

(5) The Company shall make copies of its Petition, as well as a copy of this Order for Notice and Hearing ("Order"), available for public inspection during regular business hours at each of the Company's business offices in the Commonwealth of Virginia. Copies also may be obtained by submitting a written request to counsel for the Company, Noelle J. Coates, Esquire, American Electric Power Service Corporation, 3 James Center, 1051 East Cary Street, Suite 1100, Richmond, Virginia 23219. If acceptable to the requesting party, the Company may provide the copies by electronic means. Copies of public versions of all documents filed in this case 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 23219, between the hours of 8:15 a.m. and 5 p.m., Monday through Friday, excluding holidays. Interested persons also may download unofficial copies from the Commission's website: <http://www.scc.virginia.gov/case>.

(6) On or before May 17, 2016, the Company shall publish the following notice once as display advertising (not classified) in newspapers of general circulation throughout the Company's Virginia service territory.

NOTICE TO THE PUBLIC OF THE
PETITION OF APPALACHIAN POWER
COMPANY FOR REVISION OF A RATE ADJUSTMENT
CLAUSE PURSUANT TO § 56-585.1 A 6 OF THE CODE OF
VIRGINIA WITH RESPECT TO THE
DRESDEN GENERATING PLANT
CASE NO. PUE-2016-00024

On March 31, 2016, Appalachian Power Company ("APCo" or "Company"), pursuant to § 56-585.1 A 6 of the Code of Virginia, the Commission's Rules Governing Utility Rate Applications and Annual Informational Filings, 20 VAC 5-201-10 *et seq.*, and the Commission's Final Order in Case No. PUE-2013-00009, filed with the State Corporation Commission ("Commission") a petition ("Petition") for approval to continue, with modification, a rate adjustment clause ("RAC"). The RAC, designated the "G-RAC," is designed to recover the costs of APCo's Dresden Generating Plant, a 580 megawatt natural gas-fired combined cycle generating plant located in Dresden, Ohio.

In this proceeding, APCo proposes an annual revenue requirement for the twelve months ending February 28, 2018, of approximately \$28.6 million, which the Company calculated using a return on equity of 10.7%. The Company also seeks recovery of a net estimated under-collection of G-RAC-related costs of approximately \$3.7 million for the period of February 1, 2012, through February 28, 2017 (which takes into account a projected over-recovery of approximately \$0.6 million for the period of March 1, 2016, through February 28, 2017). However, the actual amounts approved by the Commission could be higher or lower than the amounts proposed by the Company's Petition.

The Commission entered an Order for Notice and Hearing in this case that, among other things, scheduled a public hearing on September 20, 2016, at 10 a.m., in the Commission's second floor courtroom located in the Tyler Building, 1300 East Main Street, Richmond, Virginia 23219, to receive the testimony of public witnesses and the evidence of APCo, any respondents, and the

Commission's Staff. Any person desiring to testify as a public witness should appear at the hearing location fifteen (15) minutes before the starting time on the day of the hearing and contact the Commission's Bailiff.

Copies of the public version of all documents filed in this case are 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 23219, between the hours of 8:15 a.m. and 5 p.m., Monday through Friday, excluding holidays. Interested persons also may download unofficial copies from the Commission's website: <http://www.scc.virginia.gov/case>.

Copies of the Petition and other supporting materials also may be inspected during regular business hours at each of the Company's business offices in the Commonwealth of Virginia. Interested persons also may obtain a copy of the Petition by submitting a written request to counsel for the Company, Noelle J. Coates, Esquire, American Electric Power Service Corporation, 3 James Center, 1051 East Cary Street, Suite 1100, Richmond, Virginia 23219. If acceptable to the requesting party, the Company may provide the documents by electronic means.

Any person or entity may participate as a respondent in this proceeding by filing a notice of participation on or before June 14, 2016. If not filed electronically, an original and fifteen (15) copies of the notice of participation shall be submitted to Joel H. Peck, Clerk, State Corporation Commission, c/o Document Control Center, P.O. Box 2118, Richmond, Virginia 23218-2118. A copy of the notice of participation as a respondent also must be sent to counsel for the Company at the address set forth above. Pursuant to Rule 5 VAC 5-20-80 B, *Participation as a respondent*, of the Commission's Rules of Practice and Procedure ("Rules of Practice"), 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. Any organization, corporation, or government body participating as a respondent must be represented by counsel as required by Rule 5 VAC 5-20-30, *Counsel*, of the Rules of Practice. All filings shall refer to Case No. PUE-2016-00024.

On or before July 6, 2016, each respondent may file with the Clerk of the Commission and serve on the Commission Staff,

the Company, and all other respondents any testimony and exhibits by which the respondent expects to establish its case, and each witness's testimony shall include a summary not to exceed one page. If not filed electronically, an original and fifteen (15) copies of such testimony and exhibits shall be submitted to Joel H. Peck, Clerk, State Corporation Commission, c/o Document Control Center, P.O. Box 2118, Richmond, Virginia 23218-2118. Respondents also shall comply with the Commission's Rules of Practice, including: 5 VAC 5-20-140, *Filing and service*; 5 VAC 5-20-150, *Copies and format*; and 5 VAC 5-20-240, *Prepared testimony and exhibits*. All filings shall refer to Case No. PUE-2016-00024.

On or before September 13, 2016, any interested person may file written comments on the Petition with the Clerk of the Commission at the address set forth above. Interested persons desiring to submit comments electronically may do so on or before September 13, 2016, by following the instructions found on the Commission's website, <http://www.scc.virginia.gov/case>. Compact disks or any other form of electronic storage medium may not be filed with the comments. All comments shall refer to Case No. PUE-2016-00024.

The Commission's Rules of Practice may be viewed at: <http://www.scc.virginia.gov/case>. A printed copy of the Commission's Rules of Practice and an official copy of the Commission's Order for Notice and Hearing in this proceeding may be obtained from the Clerk of the Commission at the address set forth above.

APPALACHIAN POWER COMPANY

(7) On or before May 17, 2016, the Company shall serve a copy of this Order for Notice and Hearing on the chairman of the board of supervisors and county attorney of each county and upon the mayor or manager (or equivalent official) of every city and town in which the Company provides service in the Commonwealth of Virginia. Service shall be made by either personal delivery or first class mail to the customary place of business or to the residence of the person served.

(8) On or before June 7, 2016, the Company shall file proof of the notice and service required by Ordering Paragraphs (6) and (7) above, including the name, title, and address of each official served, 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 June 14, 2016, any person or entity may participate as a respondent in this proceeding by filing a notice of participation. If not filed electronically, an original and fifteen (15) copies of the notice of participation shall be filed with the Clerk of the Commission at the address set forth in Ordering Paragraph (8), and the respondent simultaneously shall serve a copy of the notice of participation on counsel to APCo at the address set forth in Ordering Paragraph (5). Pursuant to Rule 5 VAC 5-20-80 B, *Participation as a respondent*, of the Commission's Rules of Practice, 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. Any organization, corporation, or government body participating as a respondent must be represented by counsel as required by Rule 5 VAC 5-20-30, *Counsel*, of the Rules of Practice. All filings shall refer to Case No. PUE-2016-00024.

(10) Within five (5) business days of receipt of a notice of participation as a respondent, the Company shall serve upon the respondent a copy of the Petition and supporting materials, unless these materials have already been provided to the respondent.

(11) On or before July 6, 2016, each respondent may file with the Clerk of the Commission at the address set forth in Ordering Paragraph (8) and serve on the Staff, the Company, and all other respondents, any testimony and exhibits by which the respondent expects to establish its case, and each witness's testimony shall include a summary not to exceed one

page. If not filed electronically, an original and fifteen (15) copies of such testimony and exhibits shall be submitted to the Clerk of the Commission at the address set forth in Ordering Paragraph (8). In all filings, respondents shall comply with the Commission's Rules of Practice, including, but not limited to: 5 VAC 5-20-140, *Filing and service*; 5 VAC 5-20-150, *Copies and format*; and 5 VAC 5-20-240, *Prepared testimony and exhibits*. All filings shall refer to Case No. PUE-2016-00024.

(12) The Staff shall investigate the Petition. On or before August 19, 2016, the Staff shall file with the Clerk of the Commission an original and fifteen (15) copies of testimony and exhibits, and each Staff witness's testimony shall include a summary not to exceed one page. The Staff shall serve a copy thereof on counsel to the Company and all respondents.

(13) On or before September 2, 2016, the Company shall file with the Clerk of the Commission: (a) any rebuttal testimony and exhibits that it expects to offer, and each rebuttal witness's testimony shall include a summary not to exceed one page; and (b) a summary not to exceed one page of each direct witness's testimony if not previously included therewith. The Company shall serve a copy on the Staff and all respondents. If not filed electronically, an original and fifteen (15) copies of such rebuttal testimony and exhibits shall be submitted to the Clerk of the Commission at the address set forth in Ordering Paragraph (8).

(14) On or before September 13, 2016, any interested person may file written comments on the Petition with the Clerk of the Commission at the address set forth in Ordering Paragraph (8). Any interested person desiring to submit comments electronically may do so on or before September 13, 2016, by following the instructions found on the Commission's website: <http://www.scc.virginia.gov/case>. Compact disks or any other form of electronic storage

medium may not be filed with the comments. All correspondence and comments shall refer to Case No. PUE-2016-00024.

(15) The Company and respondents shall respond to interrogatories and requests for production of documents within seven (7) calendar days after receipt of the same. In addition to the service requirements of Rule 5 VAC 5-20-260 of the Rules of Practice, on the day that copies are filed with the Clerk of the Commission, a copy of the interrogatory or request for production shall be served electronically, or by facsimile, on the party to whom the interrogatory or request for production is directed or the assigned Staff attorney if the interrogatory or request for production is directed to the Staff.¹⁶ Except as modified above, discovery shall be in accordance with Part IV of the Commission's Rules of Practice, 5 VAC 5-20-240 *et seq.*

(16) This matter is continued.

AN ATTESTED COPY hereof shall be sent by the Clerk of the Commission to:
Noelle J. Coates, Esquire, American Electric Power Service Corporation, 3 James Center, 1051 East Cary Street, Suite 1100, Richmond, Virginia 23219; and C. Meade Browder, Jr., Senior Assistant Attorney General, Division of Consumer Counsel, Office of the Attorney General, 900 East Main Street, Second Floor, Richmond, Virginia 23219; and a copy shall be sent to the Commission's Office of General Counsel and Divisions of Energy Regulation and Utility Accounting and Finance.

¹⁶ The assigned Staff attorney is identified on the Commission's website <http://www.scc.virginia.gov/case> by clicking "Docket Search," then "Search Cases," and entering the case number, PUE-2016-00024, in the appropriate box.