

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

AT RICHMOND, JUNE 16, 2017

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APPLICATION OF

RAPPAHANNOCK ELECTRIC COOPERATIVE

CASE NO. PUR-2017-00044

For a general increase in rates

ORDER FOR NOTICE AND HEARING

On May 23, 2017, Rappahannock Electric Cooperative ("REC" or "Cooperative") filed with the State Corporation Commission ("Commission") an application pursuant to §§ 56-231.33, 56-231.34, 56-235, 56-236, 56-238, and 56-585.3 of the Code of Virginia ("Code") requesting approval of a proposed increase in rates and charges for bills rendered on and after January 1, 2018, and approval of revised depreciation rates effective with the implementation of the proposed rates ("Application").¹ Concurrent with its Application, the Cooperative filed a Motion for Protective Ruling.

REC represents that it must increase its revenues now to ensure that the Cooperative can meet its minimum Times Interest Earned Ratio ("TIER") requirements of its financial obligations and can continue to provide high levels of reliability and customer service.² Specifically, the proposed rates and charges are designed to increase the Cooperative's revenues by approximately \$22 million per year, an overall increase of 6.2%.³ REC asserts that these rates will more

¹ Application at 1, 6, 9. REC clarifies that while the majority of the proposed rate schedules filed with the Application indicate an effective date for bills rendered on and after January 1, 2018, Schedules HD-1 and LP-3 indicate that these revised rate schedules would be effective for bills rendered on and after February 1, 2018. *Id.* at 6, n.4.

² *Id.* at 3.

³ *Id.* at 4.

accurately reflect its cost of service.⁴ The Cooperative represents that, based on pro-forma year results, the proposed rates will result in a jurisdictional rate of return on rate base of 5.33% and produce a TIER of 2.25.⁵

As part of its Application, the Cooperative also requests new depreciation rates that, according to REC, would better recover the costs impacted by the average service lives and salvage values of its assets.⁶ REC represents that a significant portion of the requested increase in revenues results from an increase in depreciation expense.⁷

The Cooperative explains that the remaining increase in revenue requested is due to increased costs for right-of-way maintenance, higher incidence of unreimbursed major storm damage, the inclusion of credit card and debit card transaction fees, and other increases in the cost of service.⁸ The proposed revenue requirement, according to REC, also reflects certain decreases in its cost of service that the Cooperative expects to realize in the near future, including savings resulting from the conversion of its information technology systems.⁹

The Cooperative also seeks to implement certain changes to its rate structure to ensure that its rates appropriately recover its cost of service for customers.¹⁰ REC proposes to recover the majority of its proposed revenue increase through an increase to the Access Charges

⁴ *Id.*

⁵ *Id.* If the Commission determines that the Cooperative's proposed rates generate a TIER that is above 2.25, REC requests that the Commission approve the proposed rates so long as the resulting rate year TIER is within a reasonable range that would normally be recommended for an electric cooperative in Virginia. *Id.* at 5.

⁶ *Id.* at 5.

⁷ *Id.*

⁸ *Id.*

⁹ *Id.*

¹⁰ *Id.* at 6.

applicable to its residential and small commercial customers.¹¹ The Cooperative represents that increasing the Access Charge will provide a more equitable recovery of the Cooperative's fixed costs of providing service.¹²

REC also proposes rates for electricity supply service that vary by season (summer and non-summer).¹³ These rates, according to the Cooperative, are designed to reflect seasonal determinants of REC's wholesale power costs and to send appropriate price signals to customers.¹⁴ The Cooperative also requests a number of proposed changes to its rate structure and schedules, including updating all schedules to reflect the proposed rates, renaming certain rate schedules, changes to the applicability of Schedule A, the introduction of a Schedule A-2, and the withdrawal of certain lighting schedules.¹⁵

The Cooperative represents that it is not making any substantive changes to its Terms and Conditions at this time.¹⁶ Notwithstanding, REC has included revised Terms and Conditions to reflect the proposed changes to the rate schedules.¹⁷

NOW THE COMMISSION, having considered this matter, is of the opinion and finds that REC should provide notice of its Application; a public hearing should be scheduled for the purpose of receiving testimony and evidence on the Cooperative's Application; a procedural

¹¹ *Id.*

¹² *Id.*

¹³ *Id.*

¹⁴ *Id.*

¹⁵ *Id.* at 6-7.

¹⁶ *Id.* at 7.

¹⁷ REC anticipates these revised Terms and Conditions will be adopted by its Board of Directors, contingent on the Commission's acceptance of the proposed changes to the Cooperative's rate schedules. *Id.*

schedule should be established to allow interested persons an opportunity to file written or electronic comments on the Cooperative's Application or to participate in this proceeding as a respondent; and the Commission's Staff ("Staff") should be directed to investigate the Application and file testimony and exhibits containing its findings and recommendations thereon. We also find that a Hearing Examiner should be appointed to conduct all further proceedings in this matter on behalf of the Commission and to file a final report.

Accordingly, IT IS ORDERED THAT:

(1) This matter is docketed and assigned Case No. PUR-2017-00044.

(2) As provided by Code § 12.1-31 and Rule 5 VAC 5-20-120, *Procedures before hearing examiners*, of the Commission's Rules of Practice and Procedure ("Rules of Practice"),¹⁸ a Hearing Examiner is appointed to conduct all further proceedings in this matter on behalf of the Commission and to file a final report.

(3) REC may implement its proposed rates, subject to refund with interest, for bills rendered on and after January 1, 2018.

(4) A public hearing on the Application shall be convened at 10 a.m. on October 31, 2017, 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 evidence of the Cooperative, any respondents, and the Commission's Staff. Any person desiring to offer testimony as a public witness need only appear at the hearing location fifteen (15) minutes before the starting time of the hearing and identify himself or herself to the Commission's Bailiff.

¹⁸ 5 VAC 5-20-10 *et seq.*

(5) The Cooperative shall make copies of a public version of its Application, as well as a copy of this Order for Notice and Hearing, available for public inspection during regular business hours at each of the Cooperative's business offices in the Commonwealth of Virginia. A copy also may be obtained by submitting a written request to counsel for REC, Timothy E. Biller, Esquire, Hunton & Williams LLP, 951 East Byrd Street, Richmond, Virginia 23219. If acceptable to the requesting party, the Cooperative may provide the documents by electronic means. Copies of the public version 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 July 11, 2017, REC shall cause the following notice to be published as display advertising (not classified) on one (1) occasion in newspapers of general circulation throughout the Cooperative's service territory:

NOTICE TO THE PUBLIC OF
RAPPAHANNOCK ELECTRIC COOPERATIVE'S
APPLICATION FOR A GENERAL INCREASE IN RATES
CASE NO. PUR-2017-00044

On May 23, 2017, Rappahannock Electric Cooperative ("REC" or "Cooperative") filed with the State Corporation Commission ("Commission") an application pursuant to §§ 56-231.33, 56-231.34, 56-235, 56-236, 56-238, and 56-585.3 of the Code of Virginia, requesting approval of a proposed increase in rates and charges for bills rendered on and after January 1, 2018, and approval of revised depreciation rates effective with the implementation of the proposed rates ("Application").

REC represents that it must increase its revenues now to ensure that the Cooperative can meet its minimum Times Interest Earned Ratio ("TIER") requirements of its financial obligations and can continue to provide high levels of reliability and customer service. Specifically, the proposed rates and charges are designed to increase the Cooperative's revenues by approximately \$22 million per year, an overall increase of 6.2%. REC asserts that these rates will more accurately reflect its cost of service. The Cooperative represents that, based on pro-forma year results, the proposed rates will result in a jurisdictional rate of return on rate base of 5.33% and produce a TIER of 2.25.

As part of its Application, the Cooperative also requests new depreciation rates that, according to REC, would better recover the costs impacted by the average service lives and salvage values of its assets. REC represents that a significant portion of the requested increase in revenues results from an increase in depreciation expense.

The Cooperative explains that the remaining increase in revenue requested is due to increased costs for right-of-way maintenance, higher incidence of unreimbursed major storm damage, the inclusion of credit card and debit card transaction fees, and other increases in the cost of service. The proposed revenue requirement, according to REC, also reflects certain decreases in its cost of service that the Cooperative expects to realize in the near future, including savings resulting from the conversion of its information technology systems.

The Cooperative also seeks to implement certain changes to its rate structure to ensure that its rates appropriately recover its cost of service for customers. REC proposes to recover the majority of its proposed revenue increase through an increase to the Access Charges applicable to its residential and small commercial customers. The Cooperative represents that increasing the Access Charge will provide a more equitable recovery of the Cooperative's fixed costs of providing service.

REC also proposes rates for electricity supply service that vary by season (summer and non-summer). These rates, according to the Cooperative, are designed to reflect seasonal determinants of REC's wholesale power costs and to send appropriate price signals to customers. The Cooperative also requests a number of proposed changes to its rate structure and schedules, including updating all schedules to reflect the proposed rates, renaming certain rate schedules, changes to the applicability of Schedule A, the

introduction of a Schedule A-2, and the withdrawal of certain lighting schedules.

The Cooperative represents that it is not making any substantive changes to its Terms and Conditions at this time. Notwithstanding, REC has included revised Terms and Conditions to reflect the proposed changes to the rate schedules.

Interested persons are encouraged to review the Application and supporting documents for the details of these and other proposals. While the total revenue that may be approved by the Commission is limited to the amount produced by the Cooperative's proposed rates, TAKE NOTICE that the Commission may approve revenues and adopt rates, fees, charges, tariff revisions, and terms and conditions of service that differ from those appearing in the Application and supporting documents and may apportion revenues among customer classes and/or design rates in a manner differing from that shown in the Application and supporting documents.

The Commission entered an Order for Notice and Hearing that, among other things, permits the Cooperative to place its proposed rates, charges, and terms and conditions of service into effect, subject to refund, for bills rendered on and after January 1, 2018.

The Commission's Order for Notice and Hearing scheduled a public hearing at 10 a.m. on October 31, 2017, 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 the Cooperative, 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 prior to the starting time 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 Cooperative's Application and the Commission's Order for Notice and Hearing also may be inspected during regular business hours at each of the Cooperative's business offices in the Commonwealth of Virginia. Copies of these documents also may be obtained, at no charge, by submitting a written request to counsel for the Cooperative: Timothy E. Biller, Esquire, Hunton & Williams LLP, 951 East Byrd Street, Richmond, Virginia 23219. If acceptable to the requesting party, the Cooperative may provide the documents by electronic means.

On or before October 24, 2017, any interested person may file written comments on the Cooperative's Application with Joel H. Peck, Clerk, State Corporation Commission, c/o Document Control Center, P.O. Box 2118, Richmond, Virginia 23218-2118. Interested persons desiring to submit comments electronically may do so on or before October 24, 2017, 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 cannot be filed with the comments. All such comments shall refer to Case No. PUR-2017-00044.

Any person or entity may participate as a respondent in this proceeding by filing a notice of participation on or before August 1, 2017. If not filed electronically, an original and fifteen (15) copies of a notice of participation shall be filed with the Clerk of the Commission at the address set forth above. A copy of the notice of participation shall be sent to counsel for REC at the address set forth above. Pursuant to Rule 5 VAC 5-20-80, *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 shall 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. PUR-2017-00044. For additional information about participation as a respondent, any person or entity should obtain a copy of the Commission's Order for Notice and Hearing.

The Commission's Rules of Practice may be viewed at the Commission's website: <http://www.virginia.scc.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.

RAPPAHANNOCK ELECTRIC COOPERATIVE

(7) On or before July 11, 2017, REC shall serve a copy of its Application and 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) and city or town attorney of every city and town in which REC 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 residence of the person served.

(8) On or before July 29, 2017, REC shall file proof of the notice and service required by Ordering Paragraphs (6) and (7), 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 October 24, 2017, any interested person may file written comments on the Application with the Clerk of the Commission at the address set forth in Ordering Paragraph (8). Any interested person desiring to file comments electronically may do so on or before October 24, 2017, 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 cannot be filed with the comments. All comments shall refer to Case No. PUR-2017-00044.

(10) On or before August 1, 2017, 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 a notice of participation shall be filed with the Clerk of the Commission at the address set forth in Ordering Paragraph (8), and each respondent shall serve a copy of the

notice of participation on counsel to REC 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 shall be represented by counsel as required by 5 VAC 5-20-30, *Counsel*, of the Rules of Practice. All filings shall refer to Case No. PUR-2017-00044.

(11) Within five (5) business days of receipt of a notice of participation as a respondent, the Cooperative shall serve upon the respondent a copy of this Order for Notice and Hearing, a copy of the public version of this Application, and all public materials filed by the Cooperative with the Commission, unless these materials already have been provided to the respondent.

(12) On or before September 19, 2017, 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 Cooperative, 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 filed with 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. PUR-2017-00044.

(13) The Staff shall investigate the Application. On or before October 3, 2017, the Staff shall file with the Clerk of the Commission an original and fifteen (15) copies of testimony and

exhibits concerning the Application, 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 Cooperative and all respondents.

(14) On or before October 17, 2017, REC shall file with the Clerk of the Commission 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. The Cooperative shall serve a copy thereof on the Staff and all respondents. If not filed electronically, an original and fifteen (15) copies of such rebuttal testimony and exhibits shall be filed with the Clerk of the Commission at the address set forth in Ordering Paragraph (8).

(15) The Commission's Rule of Practice 5 VAC 5-20-260, *Interrogatories to parties or requests for production of documents and things*, shall be modified for this proceeding as follows: responses and objections to written interrogatories and requests for production of documents shall be served within seven (7) business days after receipt of the same. In addition to the service requirements of 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.¹⁹ 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:

¹⁹ 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, PUR-2017-00044, in the appropriate box.

Lonnie D. Nunley, III, Esquire, and Timothy E. Biller, Esquire, Hunton & Williams, 951 East Byrd Street, Richmond, Virginia 23219; and C. Meade Browder, Jr., Senior Assistant Attorney General, Office of the Attorney General, Division of Consumer Counsel, 202 N. 9th Street, 8th Floor, Richmond, Virginia 23219-3424. A copy shall be delivered to the Commission's Office of General Counsel and Divisions of Public Utility Regulation and Utility Accounting and Finance.