

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
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APPLICATION OF

VIRGINIA ELECTRIC AND POWER COMPANY

CASE NO. PUE-2015-00114

For establishment of a rate adjustment clause:
Rider U, new underground distribution facilities,
for the rate year commencing September 1, 2016

FINAL ORDER

On December 1, 2015, Virginia Electric and Power Company d/b/a Dominion Virginia Power ("Dominion" or "Company") filed with the State Corporation Commission ("Commission"), pursuant to § 56-585.1 A 6 of the Code of Virginia ("Section A 6") and the Commission's Rules Governing Utility Rate Applications and Annual Informational Filings, 20 VAC 5-201-10 *et seq.* ("Rate Case Rules"), an application ("Application") for approval of a rate adjustment clause ("RAC") designated Rider U, for new underground distribution facilities, for the rate year commencing September 1, 2016, through August 31, 2017 ("2016 Rate Year").¹ Pursuant to § 56-585.1 A 7 of the Code of Virginia ("Code"), the "Commission's final order regarding any petition filed pursuant to subdivision . . . 6 shall be entered not more than . . . nine months . . . after the date of filing of such petition."

The Company states in its Application that the 2014 General Assembly passed legislation² ("2014 Legislation") which "allows a utility to petition the Commission for approval

¹ The Company's Application included certain waiver requests with respect to the filing requirements of the Rate Case Rules. Pursuant to its Order issued on December 9, 2015, the Commission denied the Company's requested waiver to file Schedule 45 and found the Application incomplete for purposes of initiating this proceeding and commencing the Commission's nine-month review period. *See* Va. Code § 56-585.1 A 7. On December 10, 2015, the Company filed Schedule 45, together with supporting testimony, making the Application complete as of that date.

² *See* Chapters 212 and 548 of the 2014 Virginia Acts of Assembly.

of a RAC pursuant to clause (iv) of [Section] A 6 for recovery of the costs of new underground facilities to replace overhead distribution facilities of 69 kilovolts [] or less."³ The Company further states that, pursuant to the 2014 Legislation, it previously filed an application requesting Commission approval of a RAC in connection with its Strategic Underground Program ("SUP"), which was denied by the Commission in Case No. PUE-2014-00089 by Final Order dated July 30, 2015 ("2015 Rider U Final Order").⁴ In its Application, the Company acknowledges the Commission's concerns as expressed in the 2015 Rider U Final Order and states in response that it is presenting a substantially revised Application which seeks "approval of a rider for cost recovery of a more limited and clearly defined Phase One of the SUP."⁵ According to the Application, Phase One began in April 2014 and includes only "those projects which will actually be completed prior to the beginning of the proposed rate year or September 1, 2016."⁶

From a set of 4,000 miles of outage-prone lines, the Company states that it has identified a smaller subset of lines, approximately 400 miles, or two percent, of its overhead tap lines located across its Virginia service territory, for Phase One implementation, which will assist in evaluating and providing processes and procedures needed to potentially implement subsequent phases of a broader SUP.⁷ As proposed in the Application, the capital investment for Phase One is limited to no more than \$140 million.⁸ Dominion states that its actual expenses for Phase One

³ Ex. 3 (Application) at 3.

⁴ *Id.* at 3-4. See *Application of Virginia Electric and Power Company, For approval of a rate adjustment clause: Rider U, new underground distribution facilities, for the rate year commencing September 1, 2015*, Case No. PUE-2014-00089, 2015 S.C.C. Ann. Rept. 239, Final Order (July 30, 2015).

⁵ Ex. 3 (Application) at 4.

⁶ *Id.* at 7; Ex. 7 (Carter Direct) at 3.

⁷ Ex. 3 (Application) at 6.

⁸ *Id.*

incurred between April 1, 2014, and August 31, 2015, were approximately \$74 million and that the projected costs through August 31, 2016, are an additional approximately \$66 million, for a total of \$140 million.⁹ In its Application, the Company seeks approval of Rider U with an associated revenue requirement in the amount of \$24.329 million for the 2016 Rate Year.¹⁰

On December 23, 2015, the Commission issued an Order for Notice and Hearing that, among other things, docketed the Application; required Dominion to publish notice of its Application; gave interested persons the opportunity to comment on or participate in the proceeding; and scheduled a public hearing. The following parties filed notices of participation in this proceeding: the Virginia Cable Telecommunications Association and the Office of the Attorney General's Division of Consumer Counsel ("Consumer Counsel").

On April 12, 2016, Consumer Counsel filed the testimony and exhibits of its witness. On May 10, 2016, the Commission Staff ("Staff") filed the testimonies and exhibits of its witnesses and on June 6, 2016, the Staff filed supplemental testimony. On May 24, 2016, the Company filed rebuttal testimony. Public comments were also received on the Application.

The Commission convened a public hearing for the receipt of public witness testimony on Dominion's Application on June 7, 2016, during which 12 public witnesses provided testimony. On June 13, 2016, Dominion and Consumer Counsel filed a proposed Stipulation and Recommendation ("Stipulation"). The Commission reconvened the public hearing on June 14 and 15, 2016, to receive evidence on the Company's Application from the Staff, respondents and the Company. The Commission received testimony from witnesses on behalf of the participants

⁹ Ex. 7 (Carter Direct) at 3-4.

¹⁰ Ex. 3 (Application) at 9-11.

and admitted evidence on the Application. On July 15, 2016, post-hearing briefs were filed by the Company, Consumer Counsel, and the Staff.

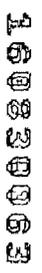
NOW THE COMMISSION, having considered this matter, is of the opinion and finds as follows.

Code of Virginia

Section A 6 states in part as follows:

To ensure the generation and delivery of a reliable and adequate supply of electricity, to meet the utility's projected native load obligations and to promote economic development, a utility may at any time, after the expiration or termination of capped rates, petition the Commission for approval of a rate adjustment clause for recovery on a timely and current basis from customers of the costs of ... (iv) one or more new underground facilities to replace one or more existing overhead distribution facilities of 69 kilovolts or less located within the Commonwealth; however, subject to the provisions of the following sentence, the utility shall not file a petition under clause (iv) more often than annually and, in such petition, shall not seek any annual incremental increase in the level of investments associated with such a petition that exceeds five percent of such utility's distribution rate base, as such rate base was determined for the most recently ended 12-month test period in the utility's latest biennial review proceeding conducted pursuant to subdivision 3 and concluded by final order of the Commission prior to the date of filing of such petition under clause (iv). In all proceedings regarding petitions filed under clause (iv), the level of investments approved for recovery in such proceedings shall be in addition to, and not in lieu of, levels of investments previously approved for recovery in prior proceedings under clause (iv).

In determining whether to approve petitions for rate adjustment clauses for new underground facilities, and in determining the level of costs to be recovered thereunder, the Commission shall liberally construe the provisions of this title and shall give due consideration to the public policy goals of increased electric service reliability and reduced outage times associated with the replacement of existing overhead distribution facilities with new underground facilities.



Section 56-585.1 D states in part as follows:

The Commission may determine, during any proceeding authorized or required by this section, the reasonableness or prudence of any cost incurred or projected to be incurred, by a utility in connection with the subject of the proceeding. A determination of the Commission regarding the reasonableness or prudence of any such cost shall be consistent with the Commission's authority to determine the reasonableness or prudence of costs in proceedings pursuant to the provisions of Chapter 10 (§ 56-232 *et seq.*).

Rider U

This is the second proceeding in which Dominion has requested approval for Rider U. In denying the Company's first request, the Commission found, based on the record in that case, that Dominion had not satisfied statutory requirements and had not established that its proposal was reasonable, prudent, and in the public interest.¹¹ In analyzing the evidence and arguments on the new Rider U as proposed in the instant proceeding, the Commission has again fully applied the applicable statutes to the record developed in the case. We find that the proposed Rider U satisfies statutory requirements, and is reasonable, prudent, and in the public interest, only if implemented subject to the specific provisions directed below.

The Commission directs that the total investment and revenue requirement for Rider U be limited, as set forth in the Stipulation, to: (a) \$140 million total investment, limited for cost recovery purposes through Rider U to \$122.5 million; (b) \$21.3 million revenue requirement for the 2016 Rate Year; (c) \$1.8 million credit against this revenue requirement, which results in a net revenue requirement of \$19.5 million for the 2016 Rate Year; and (d) a \$1.8 million credit in each of the respective Rider U true-up proceedings for rate years September 1, 2017 to

¹¹ 2015 Rider U Final Order, 2015 S.C.C. Ann. Rept. at 240.

August 31, 2018, and September 1, 2018 to August 31, 2019.¹² The investment approved herein for cost recovery purposes encompasses all such costs and represents a "hard cap" on such costs that shall be recoverable by Dominion under this Rider U approval.¹³

In approving the above investment and revenue requirement for Rider U, the Commission emphasizes that the SUP is approved herein as a pilot-type project, consistent with our prior Order that rejected Dominion's initially-proposed SUP:

The Commission, however, also finds that a more limited program, at a lower cost, specifically targeting tap lines with the worst reliability records and that would be used to provide realistic cost-benefit analyses and credible measurements of any demonstrative improvements in reliability, could reasonably satisfy the statutory requirements attendant to Rider U, but approving such an option has not been presented to us on this record. . . . We believe it could be worthwhile to conduct a pilot-type program on a scale far smaller, and much less burdensome to ratepayers, than Dominion proposes herein. The purpose would be to use these pilots to gather the data that is notably missing from the Company's Application, such as cost-benefit analyses and credible measurement and evaluation to determine whether there are demonstrative improvements in reliability that result from the undergrounding of these targeted tap lines.¹⁴

¹² Ex. 2 (Stipulation) at 7-8.

¹³ The Company also may recover financing costs associated with the capital investment approved herein. In addition, the Commission approves, finds reasonable for purposes of Rider U, and directs the Company to utilize, Staff's recommended: (i) 2015 ratemaking capital structure; (ii) jurisdictional allocation methodology; (iii) class allocation methodology; (iv) inclusion of the impact of the 50% bonus depreciation in projected Rider U accumulated deferred income tax balances; and (v) recovery of all appropriately deferred SUP costs through Rider U during the 2016 Rate Year to the extent possible within the approved revenue requirement. *See, e.g.*, Ex. 17 (Abbott Direct) at 23-29; Ex. 20 (Davis Direct) at 29-30; Ex. 20 (Davis Supplemental) at 3; Ex. 21 (Myers Direct) at 7-9; Staff's Post-Hearing Brief at 27-31. The Commission also approves, for purposes of Rider U and as requested by the Company, the financing costs for the capital investments approved herein that were incurred between July 1, 2014, and August 31, 2016.

¹⁴ 2015 Rider U Final Order, 2015 S.C.C. Ann. Rept. at 241.

undergrounded).¹⁸ The Company has explained that its long-term vision of the SUP is limited to only 20% of its overhead tap lines (representing only about 150,000 customers), but would have a capital cost of approximately \$2 billion.¹⁹ Dominion further acknowledged that, with the addition of financing costs, its customers would pay approximately \$6 billion in costs related to the Company's anticipated full SUP investment over its depreciable life.²⁰ Thus, the full SUP contemplated by Dominion represents a very expensive program, the actual benefits of which have yet to be established, documented, measured, or verified.

As a result, the Commission stresses that approval of this initial pilot-type project does not predetermine approval of any other investment in the SUP. Indeed, we explicitly find that, based on the record in this proceeding, Dominion has not established that any expenditure for the SUP, above that approved herein, is reasonable, prudent, and in the public interest. Accordingly, any additional dollars Dominion has chosen, or subsequently chooses, to spend on such project – above the amount approved herein for recovery – are incurred solely at Dominion's risk and are not presumed to be recoverable (through Rider U, base rates, or any other rate mechanism).²¹ Further, the limited approval in this proceeding does not represent approval of costs beyond those explicitly authorized herein for recovery through Rider U, including, but not limited to, those costs currently being deferred by the Company. Dominion retains the burden to establish, in any relevant future proceeding, that its decision to incur any SUP expenses other than those

¹⁸ See, e.g., Ex. 3 (Application) at 6; Tr. 135.

¹⁹ See, e.g., Tr. 308-310.

²⁰ See, e.g., Tr. 310.

²¹ In addition, the Stipulation also states: "The Commission is not limited with respect to *any* determination it may make concerning *any* future phases of the SUP." Ex. 2 (Stipulation) at 7 (emphasis added).

authorized herein satisfies the statutory requirements and is reasonable, prudent, and in the public interest.

The Commission's limited approval of the SUP as a pilot-type program also does not relieve the Company of its continuing duty to maintain distribution reliability through a broad range of efforts that include, for example, rigorous and reasonable right-of-way clearing, vegetation management, overhead line strengthening, and deployment of storm response resources. The costs and benefits related to such efforts are also relevant to cost-benefit analyses associated with the SUP. For example, "[b]ecause vegetation management is a tried and true way to reduce outages on overhead lines, Staff focused on this alternative as having potential to reduce outages during significant weather events at a lower cost than the SUP."²² Specifically, Staff "conducted an analysis comparing the Company's proposed SUP with the enhanced vegetation management alternative considered by the Company," and "Staff witness Abbott concludes that an expanded vegetation management program might be a more cost-effective alternative to the SUP in some cases under certain circumstances, particularly in high cost areas."²³ In addition, Staff "explained that if the Company were to reduce the resources currently deployed during storm restoration events, then the indirect benefits to all customers may not materialize."²⁴

The Commission directs Dominion to provide (in addition to data demonstrating that the SUP is and will be cost effective on both a local and system-wide basis) detailed information on the other programs undertaken by the Company to achieve distribution reliability benefits. This

²² Staff's Post-Hearing Brief at 16.

²³ *Id.* at 16, 19.

²⁴ *Id.* at 20 (citation omitted).

shall include, but is not necessarily limited to, annual information on the resources (both in dollars and in number of employees) devoted over each of the past ten years related to right-of-way clearing, vegetation management, overhead line strengthening, and deployment of storm response resources, as well as the specific budgeted amounts going forward for such activities.

The Commission has recently approved a return on equity ("ROE") of 9.6% for Dominion.²⁵ We continue to find – based on the record in this proceeding – that a market cost of equity of 9.6% fairly represents the actual cost of equity in capital markets for companies comparable in risk to Dominion seeking to attract equity capital. We find that this ROE is supported by the record in this proceeding,²⁶ is fair and reasonable to the Company within the meaning of the Code, permits the attraction of capital on reasonable terms, fairly compensates investors for the risks assumed, enables the Company to maintain its financial integrity, and satisfies all applicable statutory and constitutional standards.

Accordingly, IT IS ORDERED THAT:

- (1) The Company's Application for approval of a RAC designated Rider U is approved subject to the requirements set forth herein.
- (2) The Company shall file forthwith revised Rider U tariffs and terms and conditions of service and supporting workpapers with the Clerk of the Commission and with the Commission's Divisions of Energy Regulation and Utility Accounting and Finance, as necessary to comply

²⁵ See, e.g., *Application of Virginia Electric and Power Company, For approval and certification for the proposed 2016 Solar Projects pursuant to §§ 56-580 D and 56-46.1 of the Code of Virginia, and for approval of a rate adjustment clause, designated Rider US-2, under § 56-585.1 A 6 of the Code of Virginia*, Case No. PUE-2015-00104, Doc. Con. Cen. No. 160650176, Final Order (June 30, 2016).

²⁶ For example, portions of the instant record supporting this factual finding include: Ex. 23 (Oliver Direct); Staff's Post-Hearing Brief at 26-27. See also the Final Orders in Case Nos. PUE-2015-00058, -00059, -00060, -00061 and -00075 for additional discussion of ROE.

with the directives set forth in this Final Order. The Clerk of the Commission shall retain such filing for public inspection in person and on the Commission's website:

<http://www.scc.virginia.gov/case>.

(3) Rider U, as approved herein, shall be effective for usage on and after fifteen (15) calendar days following issuance of this Order or, at the Company's option, shall be effective for usage on and after September 1, 2016.

(4) The Company shall file its annual Rider U application on or after December 1, 2016.

(5) On or before March 31, 2017, and each year thereafter until further order of the Commission, the Company shall file an annual update report on the SUP. The report shall include, but is not necessarily limited to, taps and miles converted, costs per mile, performance improvements measured by event count, duration, restoration, and System Average Interruption Duration Index (SAIDI) and System Average Interruption Frequency Index (SAIFI) impacts, and any other information mutually determined by Dominion and the Staff to be useful in evaluating the results of the SUP.

(6) On or before March 31, 2017, and each year thereafter until further order of the Commission, the Company shall file a report with respect to other programs undertaken by the Company to achieve distribution reliability benefits. The report shall include, but is not necessarily limited to, annual information on the resources (both in dollars and in number of employees) devoted over each of the past ten (10) years related to right-of-way clearing, vegetation management, overhead line strengthening, and deployment of storm response resources, as well as the specific budgeted amounts going forward for such activities.

(7) This case is continued.

AN ATTESTED COPY hereof shall be sent by the Clerk of the Commission to all persons on the official Service List in this matter. The Service List is available from the Clerk of the Commission, c/o Document Control Center, 1300 East Main Street, First Floor, Tyler Building, Richmond, Virginia 23219. A copy also shall be delivered to the Commission's Office of General Counsel and Divisions of Energy Regulation and Utility Accounting and Finance.

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