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STATE CORPORATION COMMISSION
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MAY 31 2019

Case No. PUR-2018-00065

Sponsor: ("STAFF")

Exhibit No. 72 (LATE FILED)

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STATE CORPORATION COMMISSION DIVISION OF UTILITY ACCOUNTING AND FINANCE

MEMORANDUM

May 31, 2019

TO: CHAIRMAN JUDITH WILLIAMS JAGDMANN
COMMISSIONER MARK C. CHRISTIE

RE: Commonwealth of Virginia, *ex rel.* State Corporation Commission, In re: Virginia Electric and Power Company's ("Dominion" or "Company") Integrated Resource Plan filing pursuant to Va. Code § 56-597 *et seq.*, Case No. PUR-2018-00065 ("2018 IRP").

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On March 25, 2019, Dominion made a presentation to investors that announced plans to move forward with approximately \$16 billion of capital investment from 2019 through 2023 ("Investor Day Spending"). At the May 8, 2019, hearing on Dominion's 2018 IRP, the Commission directed Staff and the Company to work together to prepare a late-filed exhibit(s) quantifying the impact of the \$16 billion of Investor Day Spending on Dominion's rates and rate base. The Company prepared Exhibit 73 in response to this Commission directive. Staff files this memorandum as Exhibit 72 to provide context to the Company's analysis through a narrative explanation.

The Company's Exhibit 73 presents a comprehensive analysis of the Company's projected Virginia jurisdictional rate base as of December 31, 2023, taking into account both the Investor Day Spending and all other expected changes to rate base. The Company also presents a comprehensive analysis of residential and Schedule GS-4 customer bills as of December 31, 2023. The Appendix to this memorandum includes a more detailed narrative description of the Company's comprehensive analyses.

Staff provided input to the Company on the format of Schedules 1 through 3 of Exhibit 73 and conducted a high-level review of the underlying assumptions and calculations. Staff did not conduct a detailed audit. Based on Staff's high-level review, the projected Virginia Jurisdictional rate base and residential and Schedule GS-4 customer rate impacts analyses prepared by the Company appear to be reasonable.

As to the Commission's specific question regarding the Virginia jurisdictional rate base and rate impacts of the Investor Day Spending, the Company's analysis shows that the \$16 billion

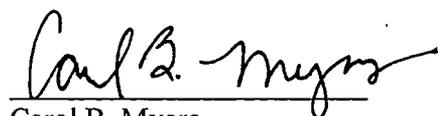
EXHIBIT# 72

of Investor Day Spending results in an incremental increase to Virginia jurisdictional net rate base of \$12.1 billion by December 31, 2023.¹ This is an increase of approximately 67 percent above the Virginia jurisdictional rate base of \$18 billion as of December 31, 2018. This increase is shown in the following table by investment type:

**Investor Day Spending
Increase to Virginia Jurisdictional Rate Base
From 2019 to 2023
In Billions of Dollars**

Transmission	\$	3.0
Solar	\$	1.9
Customer Growth	\$	1.4
Grid Transformation	\$	1.4
Nuclear Relicensing	\$	1.0
Offshore Wind	\$	0.9
Pumped Storage	\$	0.8
Strategic Undergrounding	\$	0.7
Environmental	\$	0.4
Renewable-enabling CTs	\$	0.4
Broadband	\$	<u>0.2</u>
Total	\$	<u>12.1</u>

The \$12.1 billion of Virginia jurisdictional Investor Day Spending results in incremental increases to monthly residential and Schedule GS-4 customer bills of \$29.37 and \$61,218, respectively, as of December 31, 2023.



Carol B. Myers
Deputy Director

¹ The Company represents that the remaining Investor Day Spending will be recovered from non-jurisdictional customers or through purchased power agreements with specific customers.

APPENDIX

COMPREHENSIVE PROJECTED RATE BASE

As shown on Schedule 1 of Exhibit 73, the Company's Virginia jurisdictional rate base as of December 31, 2018 was approximately \$18 billion.² The Company projects that the Investor Day Spending will increase Virginia jurisdictional rate base by \$12.1 billion, or approximately 67 percent, by December 31, 2023. The Company projects that this increase will be offset in part by a decrease to Virginia jurisdictional rate base of \$3.6 billion, or approximately 20 percent. This offsetting decrease represents the decline in rate base resulting from the Company's recovery of previously approved generation, transmission, and distribution projects from customers from 2019 through 2023, unrelated to the Investor Day Spending. This results in a projected net Virginia jurisdictional rate base of \$26.5 billion as of December 31, 2023, a net increase of \$8.5 billion, or approximately 47 percent. Schedule 3 of Exhibit 73 presents pie chart illustrations of the Company's actual 2018 and projected 2023 Virginia jurisdictional rate base balances, by rate mechanism including base rates and generation, transmission, and distribution rate adjustment clauses.

RESIDENTIAL RATE IMPACT

As shown on Schedule 1 of Exhibit 73, a monthly bill for a typical residential customer using 1,000 kilowatt-hours was \$114.42 as of December 31, 2018. As shown in the following table, the Company projects that a typical residential customer's bill will increase to \$132.37 by December 31, 2023. This is an increase of \$17.95 or approximately 16 percent.

**Typical Monthly Residential
Customer Bill
In Dollars**

2018	\$ 114.42
Investor Day Spending (\$12.1 billion)	\$ 29.37
Other Changes	<u>\$ (14.65)</u>
2023 (Excluding SB 1355)	\$ 129.14
Additional Environmental Expenses (SB 1355)	<u>\$ 3.23</u>
2023 (Including SB 1355)	<u>\$ 132.37</u>
Total Increase	16%

² Virginia jurisdictional rate base is the balance upon which the Company earns a return, including interest expense and a return on equity (i.e., profit). Rate base primarily includes the portion of the assets used to provide utility service that remain to be recovered from customers.

The Company projects that the Virginia jurisdictional Investor Day Spending of \$12.1 billion will increase a typical residential customer's bill by \$29.37 per month by December 31, 2023. The Company projects that this increase will be offset in part by a decrease of \$14.65. This decrease is largely driven by two factors: (1) the \$3.6 billion decrease to Virginia jurisdictional rate base described above; and (2) a significant decrease to projected fuel costs driven by natural gas and renewable generation, projected decreases to commodity prices, and fossil fuel plant retirements. In addition, the Company projects an additional bill increase of \$3.23 per month for environmental expenses that were not included in the Investor Day Spending.³

SCHEDULE GS-4 RATE IMPACT

As shown on Schedule 1 of Exhibit 73, a monthly bill for a Schedule GS-4 customer with a demand of 10,000 kilowatts and an energy usage of six million kilowatt-hours is \$364,299 as of December 31, 2018. As shown in the following table, the Company projects that a Schedule GS-4 customer's bill will increase to \$371,608 by December 31, 2023. This is an increase of \$7,309 or approximately two percent.

Monthly Schedule GS-4 Customer Bill In Dollars

2018	\$ 364,299
Investor Day Spending (\$12.1 billion)	\$ 61,218
Other Changes	<u>\$ (73,359)</u>
2023 (Excluding SB 1355)	\$ 352,158
Additional Environmental Expenses (SB 1355)	<u>\$ 19,450</u>
2023 (Including SB 1355)	<u>\$ 371,608</u>
Total Increase	2%

The Company projects that the Virginia jurisdictional Investor Day Spending of \$12.1 billion will increase a typical Schedule GS-4 customer's bill by \$61,218 per month by December 31, 2023. The Company projects that this increase will be more than fully offset by a decrease of \$73,359. This decrease is largely driven by two factors: (1) the \$3.6 billion decrease to Virginia jurisdictional rate base described above; and (2) a significant decrease to projected fuel costs driven

³ These additional environmental expenses are addressed by Senate Bill 1355, which was enacted during the 2019 session of the Virginia General Assembly. This legislation permits cost recovery of coal ash pond closure costs up to an annual revenue requirement impact of \$225 million, subject to certain exceptions that permit a higher revenue requirement, with rate impacts beginning in 2021.

by natural gas and renewable generation, projected decreases to commodity prices, and fossil fuel plant retirements.⁴ In addition, the Company projects an additional bill increase of \$19,450 per month for environmental expenses that were not included in the Investor Day Spending.

⁴ Fuel costs represent a larger percentage of a Schedule GS-4 customer's bill as compared to a residential customer's bill. Thus, it is Staff's understanding that the projected decrease to fuel costs described above provides more of an offset to the impact of the Investor Day Spending on a Schedule GS-4 customer's bill as compared to a residential customer's bill.