



March 25, 2019

**Application of Virginia Electric and Power Company
For revision of a rate adjustment clause: Rider U, new underground
distribution facilities, for the Rate Year Commencing February 1, 2020
Case No. PUR-2019-00046**

To: Local Government Officials

Pursuant to 20 VAC 5-201-10 J, Virginia Electric and Power Company (the "Company") is providing a copy of its Application in the above-referenced matter. Please take notice of its contents.

A copy of the complete Application in this matter may be obtained from the Company at no cost by written or oral request to Lisa S. Booth, Deputy General Counsel, Law Department, Dominion Energy Services, Inc., 120 Tredegar Street, RS-2, Richmond, Virginia 23219, (804) 819-2288.

A handwritten signature in black ink, appearing to read "Lisa S. Booth", written over a horizontal line.

Lisa S. Booth
Deputy General Counsel

Attachment

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

APPLICATION OF)
)
VIRGINIA ELECTRIC AND POWER COMPANY)
) Case No. PUR-2019-00046
For revision of a rate adjustment clause: Rider U,)
new underground distribution facilities,)
for the Rate Year Commencing February 1, 2020)

**VIRGINIA ELECTRIC AND POWER COMPANY'S
RIDER U ANNUAL UPDATE FILING AND WAIVER REQUEST**

Virginia Electric and Power Company (“Dominion Energy Virginia” or the “Company”), by counsel, pursuant to clause (iv) of § 56-585.1 A 6 (“Subsection A 6”) of the Code of Virginia (“Va. Code” or “Code”), and Rules 10 (20 VAC 5-201-10) and 60 (20 VAC 5-201-60) of the Virginia State Corporation Commission’s (“Commission”) Rules Governing Utility Rate Case Applications and Annual Informational Filings (20 VAC 5-201-10 *et seq.*) (“Rate Case Rules”), hereby submits its third annual update filing with respect to its rate adjustment clause (“RAC”), Rider U, for cost recovery associated with phase one (“Phase One”), phase two (“Phase Two”), and phase three (“Phase Three”) (collectively, the “Previously Approved Phases”) of the Company’s Strategic Underground Program (“SUP”) and its request for Commission approval to recover costs associated with phase four (“Phase Four”) of the SUP through Rider U, for the rate year commencing February 1, 2020 through January 31, 2021 (“Rate Year”) (the “Application”). In support of this Application, the Company respectfully shows as follows:

GENERAL INFORMATION

1. Dominion Energy Virginia is a public service corporation organized under the laws of the Commonwealth of Virginia furnishing electric service to the public within its certificated service territory. The Company also supplies electric service to Non-Jurisdictional

customers in Virginia and the public in portions of North Carolina. The Company is engaged in the business of generating, transmitting, distributing, and selling electric power and energy to the public for compensation. The Company is also a public utility under the Federal Power Act, and certain of its operations are subject to the jurisdiction of the Federal Energy Regulatory Commission. The Company is an operating subsidiary of Dominion Energy, Inc.

2. The Company's name and post office address is:

Virginia Electric and Power Company
120 Tredegar Street
Richmond, Virginia 23219

3. The names, post office addresses, and telephone numbers of the attorneys for the Company are:

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APPLICABLE VIRGINIA CODE

4. The current version of Virginia Code § 56-585.1 A 6 ("Subsection A 6"), provides that the annual incremental increase in investment level pursuant to a petition under clause (iv) of this subdivision shall not exceed five percent of the Company's distribution rate

base, as such rate base was determined for the most recently ended 12-month test period in the Company's latest biennial review proceeding. The statute provides that the replacement of any subset of a utility's existing overhead distribution tap lines that have, in the aggregate, an average of nine or more total unplanned outage events-per-mile over a preceding 10-year period with new underground facilities in order to improve electric service reliability is in the public interest.

5. The statute further provides that the conversion of any such facilities on or after September 1, 2016 is deemed to provide local and system-wide benefits and to be cost beneficial, and that the costs associated with such new underground facilities are deemed to be reasonably and prudently incurred.

6. Lastly, so long as the aggregated costs associated with the replacement of overhead distribution tap lines with underground facilities does not exceed an average cost per customer of \$20,000, including customers served directly by or downline of the tap lines proposed for conversion, exclusive of financing costs, and an average cost per mile of \$750,000, exclusive of financing costs, the Commission shall approve such costs.

REQUESTED RECOVERY

7. In the Company's most recent application in Case Number PUR-2018-00042 ("Phase Three proceeding"), the Commission approved Rider U for implementation for a February 1, 2019 through January 31, 2020 rate year. In this current application, the Company proposes an effective date of February 1, 2020 (for a rate year of February 1, 2020 through January 31, 2021) or, consistent with the Company's request for billing purposes in other cases to implement rate adjustment clauses, on and after the first day of the month which is at least fifteen (15) calendar days following the date of any Commission order approving Rider U.

8. As explained by Company Witness C. Alan Givens, the Company is requesting recovery for a revenue requirement of \$29.183 million for the Previously Approved Phases and a revenue requirement of \$22.335 million for proposed Phase Four costs, for a total combined Rider U revenue requirement of \$51.517 million.

PHASE THREE UPDATE

9. In Phase Three, the Company completed 417.2 miles of underground conversions of overhead distribution tap lines and associated facilities. This compares favorably to the projected 416 miles the Company proposed for Phase Three underground conversions. Company Witness Leslie M. Carter discusses the underground conversion projects completed in Phase Three.

10. The Company invested a total of \$179.8 million in Phase Three projects, which is in line with the projected Phase Three capital expenditures of \$179 million. The Company estimated Phase Three would cost an average of approximately \$430,000 per mile, and the actual cost per mile for Phase Three was \$430,997. Company Witness Carter provides details for Phase Three costs and the total capital investment.

PROPOSED PHASE FOUR

11. Phase Four is designed to convert approximately 677 miles of overhead tap lines to underground facilities at a capital investment of approximately \$123 million. Phase Four actual expenditures through January 31, 2019, are \$38.1 million, and projected expenditures for the period February 1, 2019 through January 31, 2020, are approximately \$85 million. For Phase Four underground conversions, the Company estimates an average cost per mile of \$500,000, an average cost per customer of \$9,264, and an events per mile of 14.06. Company Witness Carter describes the process to develop the Phase Four budget and calculate the average cost per mile of

underground conversions. As explained by Company Witness Alan W. Bradshaw, the Phase Four tap lines meet the statutory requirements Subsection A 6 for cost recovery.

12. Consistent with the Code, the Company continues to use the selection metric of “events per mile” to identify the most-outage prone tap lines that are candidates for underground conversions based upon outage history of each line over a ten year period.

13. The Company is requesting to recover costs of Phase Four through Rider U for only those projects that will be completed prior to the beginning of the proposed Rate Year or February 1, 2020. Company Witness Bradshaw discusses the complete undergrounding process – including tap line selection, as well as refinements to Phase Four’s project management and customer communications and outreach.

14. The Company respectfully requests that the Commission approve recovery of these Phase Four capital investments through Rider U, subject to subsequent true-ups, and find that such expenditures are consistent with Subsection A 6.

PHASES ONE THROUGH THREE ACCOUNTING UPDATE AND PHASE FOUR ACCOUNTING

A. Rate of Return on Common Equity

15. The Commission approved a 9.2% return on common equity (“ROE”) in Case No. PUR-2017-00038 to be used in the Company’s rate adjustment clauses under Va. Code § 56-583.1 A 5 and Subsection A 6 to calculate the revenue requirement. Accordingly, for purposes of calculating the revenue requirement for the February 1, 2020 through January 31, 2021 Rate Year in this case, the Company used an ROE of 9.2%.

B. Revenue Requirement

16. The two key components of the revenue requirement for each phase in this filing are the Projected Cost Recovery Factor and the Actual Cost True-up Factor. There will not be an

Allowance for Funds Used During Construction (“AFUDC”) Cost Recovery Factor in Rider U filings. Consistent with the Company’s previous Rider U applications, costs for Phase Four underground conversion projects are being closed directly to plant-in-service in the month incurred, consistent with the Company’s longstanding practice for Distribution Massed Assets. Therefore, the underground distribution conversion projects will not have Construction Work in Progress balances requiring the accrual of AFUDC.

17. To calculate the Projected Cost Recovery Factor, the Company is proposing to only include actual and projected capital expenditures up until the beginning of the Rate Year in determination of the rate base and the calculation of financing costs on rate base. The projected rate base as of January 31, 2020, will be utilized separately for each phase of the current filing. Additionally, similar to costs deferred as part of the Company’s previous Rider U applications, the Company has identified certain costs incurred related to Phase Four that have been deferred and will be amortized over the Rate Year in this case.

18. As Company Witness Givens explains, the Actual Cost True-Up Factor will credit to, or recover from, customers any over- or under-collection of costs from the most recently completed calendar year, 2018. For the current Rider U filing, the Company is proposing to true-up Phases One and Two for the period of January 1, 2018 through December 31, 2018.

19. The Company utilizes an end-of-test period capital structure and cost of capital pursuant to Va. Code § 56-585.1 A 10 and consistent with the Commission’s Order on Commission Staff’s Motion *in Limine* dated July 14, 2009 in the Company’s 2009 going-in review, Case No. PUE-2009-00019. For purposes of setting rates during the Rate Year, the Company is utilizing the actual December 31, 2018 year-end capital structure and year-end Cost of Capital. Company Witness Givens supports this calculation.

20. Similar to the Company's treatment of costs incurred for prior phases of the SUP, the Company is proposing to defer depreciation expense, property taxes, feasibility costs and financing costs on rate base incurred up through the beginning of the Rate Year for Phase Four, and recover them over the Rate Year ending January 31, 2021. This is consistent with how the Company is currently deferring Pre-Commercial Operation costs in other various Subsection A 6 rate adjustment clause cases, and similar to how it is deferring and recovering certain demand-side management ("DSM") Program Design Costs in the current DSM RAC.

21. For the Rate Year beginning February 1, 2020, the Company is therefore requesting recovery of a total revenue requirement of \$29.183 million for Previously Approved Phases, and a revenue requirement of \$22.335 million for proposed Phase Four, for a combined Rider U revenue requirement of \$51.517 million.

RIDER U COST ALLOCATION AND RATE DESIGN UPDATE

22. The Company interprets the language in Subsection A 6 to mean that the Company's Virginia Jurisdictional large general service rate classes, GS-3, GS-3 SCR, GS-4, and § 56-235.2 Contracts are exempt from Rider U charges. That is, the Virginia Jurisdictional Rider U costs will be collected only from the Residential, GS-1, GS-2, Church, and Lighting classes. As described by Company Witness J. Clayton Crouch, the Company is proposing a method of cost allocation between the Virginia Jurisdictional and Virginia Non-Jurisdictional customers approved by the Commission's Final Order dated December 9, 2018 in Case No. PUR-2018-00042. Under this methodology, the Company is using a Virginia Jurisdictional Rider U allocation factor of 89.0331% for Rider U's Projected Cost Recovery Factor. Based on the Commission's previously-approved methodology, the Company is using a Virginia Jurisdictional Rider U allocation factor of 89.0331% for Rider U's Actual Cost True-Up Factor.

Company Witness Crouch also details the Rider U customer class allocation and pricing, and the assignment of Rider U distribution plant to the Virginia Jurisdiction.

23. The updated Rider U, sponsored by Company Witness Crouch, identifies the rates in either cents per kilowatt-hour (“kWh”) or dollars per kilowatt that will apply to each applicable Company Rate Schedule for Rider U.

24. The Company proposes, for billing purposes, that Rider U have an effective date for usage on and after the first day of the month which is at least fifteen (15) calendar days following the date of any Commission order approving Rider U. Regardless of the resulting effective date of Rider U for billing purposes, the Company proposes, for calculation of the revenue requirement, the Rate Year be February 1, 2020 to January 31, 2021.

25. The implementation of the proposed Rider U on February 1, 2020 is calculated to incrementally decrease the residential customer’s monthly bill by \$0.51 compared to the current Rider U. The total Rider U bill impact is \$1.33, based on usage of 1,000 kWh per month. Company Witness Crouch provides typical monthly bill changes for customers subject to Rider U receiving service on Residential Schedule 1, General Service Schedules GS-1, GS-2, and Church Schedule 5C, at several representative levels of consumption or demand.

**PRE-FILED DIRECT TESTIMONY AND EXHIBITS
SUPPORTING FILING SCHEDULE 46 AND REQUEST FOR PARTIAL
WAIVER OF THE RATE CASE RULES FILING REQUIREMENTS**

26. In support of this Application, Dominion Energy Virginia presents herewith the pre-filed direct testimony and exhibits of the following witnesses: Alan W. Bradshaw, Leslie M. Carter, C. Alan Givens, and J. Clayton Crouch.

A. Filing Schedule 46

27. Filing Schedule 46A, Statement 1, sponsored by Company Witness Carter,

provides actual and projected Rider U costs annually and by month through January 2020. Statement 2 contains the SAP backup for actual costs from September 2017 to April 2018. Consistent with the approach presented in other Subsection A 6 annual update filings, Schedule 46A, Statement 3 provides documentation supporting these costs to the extent that such information has changed since the Company's March 19, 2018 application filed in the Phase Three proceeding, including all documentation, contracts, studies, investigations, or correspondence that supports costs proposed to be recovered via the RAC.

28. Filing Schedule 46B, Statement 1, sponsored by Company Witness Givens, provides the combined total revenue requirement for the Previously Approved Phases and Phase Four for the Rate Year ending January 31, 2021. Filing Schedule 46B, Statement 2 provides the annual revenue requirement over the duration of the RAC for the Previously Approved Phases and Phase Four. Filing Schedule 46B, Statement 3 provides documentation supporting Statement 2. Lastly, Filing Schedule 46B, Statement 4 provides a detailed description of all significant accounting procedures and internal controls that the Company has instituted to identify all costs associated with the RAC.

29. Filing Schedule 46C, Statement 1 sponsored by Company Witness Crouch, provides the allocation of the revenue requirement and the rate design for the Rate Year ending January 31, 2021. In addition, Filing Schedule 46C, Statement 2, provides the annual revenue requirement by class over the duration of the RAC.

C. Request for Waiver of Filing Schedule 45 Requirements

30. The Company, for good cause shown and pursuant to 20 VAC 5-201-10 E, respectfully requests that the Commission waive, in part, the requirements under Rules 60 and 90 of the Rate Case Rules with respect to Filing Schedule 45 (Return on Equity Peer Group

Benchmark). The Commission approved a 9.2% base ROE in Case No. PUR-2017-00038 to be used in the Company's riders under Va. Code § 56-583.1 A 5 and Subsection A 6 to calculate the revenue requirement. To the extent that any change in the general ROE associated with the Company's upcoming 2019 ROE Review proceeding, impacts the revenue requirement in this case, the Company will address that impact in subsequent Rider U true-ups. To promote judicial economy and efficiency of case administration, the Company therefore respectfully requests that the Commission waive, for good cause shown, the requirements of 20 VAC 5-201-60 and 20 VAC 5-201-90 with respect to the submission of Filing Schedule 45 in this Rider U update.

C. Filing Schedule 46 Requirements

31. Consistent with the Commission's ruling in the Order for Notice and Hearing issued in the Phase Three proceeding, Case No. PUR-2018-00042, the Company is not filing documents in response to certain provisions of the Rate Case Rules addressing generation-related RAC filing requirements in Schedule 46 because they are not applicable the distribution facilities addressed in clause (iv) of Subsection A 6.¹ The Commission has previously indicated that no waiver request is necessary.

REQUEST FOR CONFIDENTIAL TREATMENT

32. The Company's Application contains, at points so designated therein, confidential and/or redacted information, and the non-public version of this filing is being made under seal. Because portions of the Company's Application contain such confidential and/or redacted information, in compliance with Rule 10 F and Rule 170, 20 VAC 5-201-10 F and 5 VAC 5-20-170, this filing is accompanied by a separate Motion for Entry of a Protective Order, including a form of Proposed Protective Order, filed by the Company under separate

¹ *Application of Virginia Electric and Power Company For revision of rate adjustment clause: Rider U, new underground distribution facilities, for the rate year commencing February 1, 2019, Case No. PUR-2018-00042, Order for Notice and Hearing (Apr. 2, 2018) at 6.*

cover but contemporaneously with this Application.

COMPLIANCE WITH RULE 10 OF THE RATE CASE RULES

33. The Company's Application for revision of Rider U complies with the requirements contained in Rule 10 of the Rate Case Rules. In accordance with Rule 10 A, the Company filed with the Commission on January 17, 2019, the Company's notice of intent to file this Application under Va. Code § 56-585.1 A 6. Copies of the Public Version of this Application, to the extent required by Rule 10 J, along with the additional information required by Rule 10 J, have been served upon the persons addressed in that Rule. A complete copy of the Public Version of this Application has been served upon the Office of the Attorney General's Division of Consumer Counsel, in accordance with Rule 10 J. Also included with and following this Application, pursuant to Rule 10, is a table of contents of this filing, including exhibits and schedules.

34. Beyond the initial Application, Rule 20 VAC 5-201-10 J requires the Company to serve copies of certain information related to Dominion Energy Virginia's rate proceedings upon local officials via first class mail or personal delivery. The Company has obtained a continuing waiver of Rule 10 J of the Rate Case Rules from the Commission to permit electronic delivery of rate application information to the localities in lieu of first class mail delivery upon request from the locality.² Accordingly, the Company requests that any procedural order issued in this proceeding allow for electronic service of materials going forward on localities that request such service in writing.

CONCLUSION


WHEREFORE, the Company respectfully requests that the Commission: (1) approve the

² *Petition of Virginia Electric and Power Company For continuing waiver of 20 VAC 5-201-10 J of the Rules Governing Utility Rate Applications and Annual Informational Filings to permit electronic service to local officials upon request*, Case No. PUE-2016-00039, Final Order at 2-3 (Apr. 19, 2016).

proposed revenue requirement, cost allocation, rate design, and accounting treatment for costs associated with the Previously Approved Phases and Phase Four of the SUP over the rate year of February 1, 2020 through January 31, 2021; (2) approve the Company's proposed Rider U, effective for usage on and after the latter of February 1, 2020 or the first day of the month which is at least fifteen (15) days following the date of any Commission order approving Rider BW; (3) grant the Company's requested waiver as to the Filing Schedule 45 Requirements; and (4) grant such other relief as deemed appropriate and necessary.

Respectfully submitted,

VIRGINIA ELECTRIC AND POWER COMPANY

By: 
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