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October 17, 2017

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**Application of
Rappahannock Electric Cooperative
For general rate relief
Case No. PUR-2017-00044**

Dear Mr. Peck:

Enclosed for filing please find the Rebuttal Testimony of Rappahannock Electric Cooperative.

Sincerely,

Timothy E. Biller

Enclosure

cc: Hon. Howard P. Anderson, Jr.
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CERTIFICATE OF SERVICE

I hereby certify that on this 17th day of October 2017 a true copy of the foregoing Rebuttal Testimony of Rappahannock Electric Cooperative was delivered by hand or mailed, first-class, postage prepaid, to the following:

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BEFORE THE VIRGINIA STATE CORPORATION COMMISSION

CASE NO. PUR-2017-00044

REBUTTAL TESTIMONY

OF

MATTHEW A. FAULCONER

ON BEHALF OF

RAPPAHANNOCK ELECTRIC COOPERATIVE

October 17, 2017

Rappahannock Electric Cooperative
Case No. PUR-2017-00044
Matthew A. Faulconer
Summary of Rebuttal Testimony

The purpose of my rebuttal testimony is to comment on the testimonies of the Commission Staff (“Staff”) witnesses generally, and that of Staff witness Marc A. Tufaro specifically, and the testimony of the Sierra Club’s witness Melissa Whited in this proceeding. My testimony:

1. Expresses support for Staff’s review of the Cooperative’s proposed rates;
2. Puts into perspective the Sierra Club’s claim regarding the impact of the proposed rates on “ratepayers providing distributed generation to the Cooperative”
3. Counters the claims of the Sierra Club’s witness Melissa Whited regarding the effectiveness of the Cooperative’s current rate design, and the effect of the proposed Access Charge as it relates to the topics of rate stability, customer equity, the effect on low-income customers, and incentives for distributed generation and energy efficiency.

**REBUTTAL TESTIMONY
OF
MATTHEW A. FAULCONER
ON BEHALF OF
RAPPAHANNOCK ELECTRIC COOPERATIVE
BEFORE THE
STATE CORPORATION COMMISSION OF VIRGINIA
CASE NO. PUR-2017-00044**

1 **Q1. Please state your name, position and business address.**

2 A. My name is Matthew A. Faulconer, and I am the Manager of External Affairs at
3 Rappahannock Electric Cooperative (“REC” or the “Cooperative”). My business address
4 is P.O. Box 7388, Fredericksburg, Virginia 22404.

5 **Q2. Are you the same Matthew A. Faulconer who filed direct testimony in this**
6 **proceeding?**

7 A. Yes.

8 **Q3. What is the purpose of your testimony?**

9 A. The purpose of my rebuttal testimony is to comment on the testimonies of the
10 Commission Staff (“Staff”) witnesses generally, and that of Staff witness Marc A. Tufaro
11 specifically, and the testimony of the Sierra Club’s witness Melissa Whited in this
12 proceeding.

13 **Q4. Have you read the prefiled testimony prepared by the SCC Staff, and if so, do you**
14 **have any comments?**

15 A. Yes, I have read the prefiled testimony of each of the Staff witnesses. I thank them
16 collectively for their thorough review and analysis. Overall, their comments seemed fair
17 and generally supportive of the revenue and rates sought within REC’s application. REC
18 witnesses Jack Gaines and Lawrence Andrews will more specifically comment on the
19 testimony of Staff witnesses Welsh and Lee, and my comments will focus on the

1 testimony of Staff witness Tufaro. In particular, I am pleased that Staff's testimony is
2 generally supportive of the rate design the Cooperative has proposed in this Application.

3 **Q5. In his testimony, does Staff witness Tufaro make any reference to Bonbright's**
4 **Principles of Public Utility Rates?**

5 A. Yes, he does. He lists the Bonbright criteria that Staff uses when reviewing proposed
6 rates, and states that of those, Staff focused on: "(i) rate stability and predictability; (ii)
7 fairness of the specific rates; and (iii) effectiveness in yielding total revenue
8 requirements." Staff did not express any concerns about the Cooperative's proposed
9 rates relative to those criteria or any of the Bonbright principles.

10 **Q6. Did Staff make any comment relative to the Cooperative's proposed changes to**
11 **rates?**

12 A. Yes, Staff accurately describes the changes REC proposes; notes that the proposed
13 increase to the Access Charges is less than the levels supported by the Class Cost of
14 Service study; and states that it "is generally not opposed to the proposed increases in the
15 Access Charges by REC."

16 **Q7. Have you reviewed documents filed in this proceeding by the Sierra Club?**

17 A. Yes, I have read both the Sierra Club's ("Club's") Notice of Participation ("Notice") and
18 the pre-filed testimony of Ms. Whited.

19 **Q8. Do you have comments on the Notice?**

20 A. Yes, in paragraph 4 of the Notice, the Club expresses concern about the impact the
21 proposed rates will have on "ratepayers providing distributed generation to the
22 Cooperative." To put this in perspective, the Commission should be aware that less than

1 0.3% of the Cooperative's members provide "distributed generation to the Cooperative,"¹
 2 and such members do so on a completely voluntary basis. Further, it is an important
 3 distinction that the rate change about which the Club expresses concern is for distribution
 4 service, and this small segment of members it claims will be disproportionately impacted
 5 is providing generation service; the two functions are completely separate with regards to
 6 revenue and the Cooperative's recovery of distribution costs.

7 **Q9. Do you have any comments regarding the testimony of Melissa Whited?**

8 A. Yes. Specifically, I will address her comments regarding the Cooperative's proposed
 9 Access Charge as it relates to the topics of rate stability, customer equity, the effect on
 10 low-income customers, and incentives for distributed generation.

11 **Q10. What is your reaction to Ms. Whited's comments suggesting that the Cooperative's**
 12 **use of the same basic rate design for 25 years is an indication that the current design**
 13 **functions well?**

14 A. That statement does not recognize the fact that for many of those 25 years growth, both in
 15 the form of per customer electricity use and in the number of customers, helped offset
 16 rising costs. It also does not recognize the fact that for the past several years, the
 17 Cooperative's revenues have not kept pace with the Cooperative's costs. From 1993 to
 18 2006, new services were added at the rate of more than 4% per year, and from 1992 to
 19 2005, average residential monthly kWh use rose from 1,059 kWh to 1,357 kWh, a 28%
 20 increase. In recent years, new service growth has slowed significantly, with new
 21 connections averaging only 1.2% per year since 2011. Moreover, the Cooperative has
 22 seen average residential monthly kWh use decline by an average of 0.6% per year since

¹ Based on 424 net metering accounts compared to 159,337 active services as of August 30, 2017.

2005, down to 1,252 kWh per month for 2016, an approximate 8% reduction since 2005.

At the same time, the cost of building, maintaining, and operating the distribution system, and the cost of providing the expected levels of customer service, has continued to increase. Ultimately, the reason the Cooperative maintained the same basic rate design for so long had little to do with how well the rates functioned, and was instead more influenced by external circumstances. Those circumstances are explained in detail in REC's response to Question 12 of the OAG first set of interrogatories, which, due to the Club's late entry into the case, was not available to Ms. Whited when she prepared her testimony. A copy of this discovery response is attached to my testimony as Rebuttal Exhibit 1.

Q11. Do you agree that more frequent rate changes would facilitate rate stability?

A. No, more frequent rate changes would actually decrease rate stability. Rate applications come at considerable expense to the Cooperative's members, thus offsetting any presumed benefit of more frequent changes.

Q12. Do you agree with Ms. Whited's comments regarding the proposed change in the Access Charge having a negative effect on customer equity?

A. No. For clarity, let me state that in this context I define equity as all consumers paying an equitable share of the costs they create. With that understanding, I firmly believe increasing the access charge increases equity by ensuring all consumers, regardless of usage volume, pay a greater share of the cost that is necessary to have the distribution service available for their use.

1 **Q13. How do you interpret Ms. Whited’s statement, “[t]he Cooperative failed to**
2 **demonstrate in its application that a dramatic increase to the fixed charge is the**
3 **only way to recover its allowed revenues”?**

4 A. I interpret that statement to indicate a lack of understanding of the standards by which
5 rate applications in Virginia are evaluated. It is my understanding that there is no burden
6 to prove that a rate design “is the *only way* to recover . . . allowed revenues,” but that the
7 rate must be found to be “just and reasonable.” It is the Cooperative’s position that the
8 proposed Access Charges are just and reasonable as supported through the Cooperative’s
9 Application and the evidence in this proceeding.

10 **Q14. How does Ms. Whited’s testimony regarding the Bonbright Principles compare to**
11 **that of Commission Staff?**

12 A. Both Ms. Whited and Staff list eight criteria, stated in slightly different words, and each
13 specifically mentions three of those principles. Both Staff and Whited address stability
14 and fairness. In contrast to Ms. Whited’s claim that the proposed rates do not meet those
15 principles, Staff does not note any deficiency relative to the Bonbright principles.

16 **Q15. Do the rates proposed by the Cooperative encourage efficiency?**

17 A. Yes, as noted by Staff, the seasonal rates for supply service “provide a better pricing
18 signal to REC customers and potentially serve as a form of demand response.”

19 **Q16. Under the proposed rates, will customer bills vary based on usage?**

20 A. Yes. Like the Cooperative’s current rates, the amount billed under the proposed rates
21 will increase as usage increases and will decrease as usage is reduced. Under the
22 proposed rates, including the adjustment to the fixed charge, 87% of the average

1 residential bill will still be based on volumetric charges.

2 **Q17. Will the Cooperative's proposed rates cause "rate shock for many customers" as**
3 **claimed by witness Whited?**

4 A. Both "rate shock" and "many" are relative terms, and I disagree with those
5 generalizations. The percentage increase will obviously vary from meter to meter, but
6 under the proposed rates the average bill increase for the single phase residential
7 members is 8.46%. While bills for zero usage will increase by a greater percentage due
8 to the increase in the Access Charge, the real dollar increase of \$10 per month amounts to
9 less than 34 cents per day. I do not believe that small amount will cause rate shock for
10 our customers as Ms. Whited claims.

11 **Q18. Does evaluating the Access Charge alone provide an accurate picture of the rate**
12 **effect?**

13 A. Access Charges are but a single element of the rate design. Customer impact of the
14 proposed rates should be considered across all usage levels and from a total rate
15 perspective. It is unreasonable to assess the effect on true residential consumers by a zero
16 use measurement, as suggested by Ms. Whited. Realistically, a full-time residence can be
17 expected to use several hundred kWh of electricity each month. For instance, the average
18 refrigerator alone typically uses 48 kWh per month. Most rural homes would also have a
19 well pump, electric water heater, and electric oven, adding another 450 kWh per month.
20 For perspective, the Cooperative's average monthly residential consumption is
21 approximately 1,300 kWh.

1 **Q19. You mentioned the effect at zero usage. How do the residential increases compare**
2 **in dollar terms at more realistic residential usage levels?**

3 A. From an absolute dollar perspective, the monthly increases on a total bill basis are \$8.74
4 at 250 kWh, \$7.96 at 500 kWh, and \$7.30 at 750 kWh. To place these numbers in
5 context, the average single-phase residential bill increase is \$12.21 per month.

6 **Q20. Do you agree with Ms. Whited's testimony that low-income consumers tend to use**
7 **less electricity?**

8 A. No, data indicates otherwise. A good indicator of income level is whether a consumer
9 qualifies for state administered fuel assistance, which includes income as an eligibility
10 criterion. REC's records show that the typical REC member receiving fuel assistance
11 used an average of 1,323 kWh per month, 40 kWh more than the current residential class
12 monthly average.

13 **Q21. Why do you think fuel-assisted consumers, who you use as a proxy for low-income**
14 **consumers, use more than the average residential member?**

15 A. There are likely a variety of reasons low-income consumers use more than the residential
16 class average: low-income consumers may live in older, less insulated housing stock;
17 may not have the resources to invest in efficiency improvements, or may live in rental
18 property where the landlord has little incentive to invest in efficiency; or have older, less
19 efficient heating and cooling systems, including baseboard heat or portable electric-
20 resistance heaters, and window air-conditioners.

1 **Q22. To what do you attribute the difference in usage by REC's members receiving fuel**
2 **assistance and the low-income usage data cited by Ms. Whited?**

3 A. The Energy Information Administration ("EIA") graph, Figure 2 from Ms. Whited's
4 testimony, shows that the average electricity usage for low income Virginians is lower
5 than the average electricity usage for average income Virginians. Ms. Whited does not
6 explain the basis for the EIA information she cites, but REC records of our members
7 indicate the opposite. I expect a major basis for the difference is that the cited statewide
8 usage figures do not factor in the unavailability of natural gas in rural areas. The EIA
9 statewide numbers include consumers in more urban and suburban areas where natural
10 gas is more readily available, and therefore such consumers may be using something
11 other than electricity as the primary fuel for space heating, as well as water heating and
12 cooking. Natural gas is not widely available within REC's service area, therefore a
13 higher percentage of homes use electricity for space heating, water heating, and cooking.
14 In the REC service territory, even in homes where other fuel sources, such as oil,
15 propane, or wood, are used for space heating, electricity remains the predominant fuel for
16 water heating and cooking. Also, since those other fuel sources are not regulated,
17 suppliers can impose strict payment requirements such as payment in advance of or upon
18 delivery. Consumers, particularly low-income consumers, facing such payment
19 requirements often rely on portable electric heaters since electric service is not billed
20 until after usage, and because electric utilities generally do not disconnect for non-
21 payment during cold weather. Another factor is likely to be that the EIA statewide
22 numbers include a large number of low-income consumers living in multi-family
23 housing, while low-income consumers in rural areas such as those served by REC tend to

1 live in single-family dwellings. Single-family dwellings typically have higher usage than
2 multi-family housing units.

3 **Q23. How will the Cooperative's proposed rates effect the typical member receiving fuel**
4 **assistance?**

5 A. Based on monthly usage patterns, a typical member receiving fuel assistance will
6 experience an average monthly increase of \$9.63.

7 **Q24. How do you explain the fact that typical low-income consumers will see**
8 **proportionately less increase under the proposed rates than will low usage**
9 **customers?**

10 A. The current rate design is more dependent on revenue from volumetric sales, with less of
11 the average costs of service recovered through the Access Charge. Over-reliance on
12 volumetric sales for distribution cost recovery increases intra-class subsidies. Since
13 REC's low-income consumers tend to use greater volumes of electricity, they are in
14 effect currently subsidizing the costs of providing distribution service to low usage
15 consumers. The proposed new rates help reduce the current intra-class subsidy.

16 **Q25. In REC's service territory, what type of consumers are typically low usage**
17 **customers, using less than 300 kWh per month?**

18 A. Low usage locations tend to be structures that are not true residences, such as ancillary
19 facilities like barns, garages, water pumps, electric fences and electric gates, or non-full-
20 time residences, such as weekend homes and cabins.

1 **Q26. Do consumers providing distributed generation (“DG”) services tend to be low**
2 **usage customers?**

3 A. The usage of distributed generation consumers varies significantly from consumer to
4 consumer, as their usage is a function of the size and efficiency of the house compared to
5 the size of the distributed generation system. Some DG customers generate nearly
6 enough to fully offset their consumption, and others simply supplement their total
7 consumption.

8 **Q27. Are any of the Cooperative’s consumers who provide distributed generation service**
9 **receiving fuel assistance and therefore fit in the category of low-income customers?**

10 A. No.

11 **Q28. What is your reaction to Ms. Whited’s statement that REC’s proposed Access**
12 **Charge is higher than other mid-Atlantic utilities?**

13 A. Included in on page 13 of my direct testimony is a chart comparing the fixed charges of
14 Virginia’s regulated electric cooperatives. The chart illustrates that both REC’s current
15 and proposed Access Charge is on the low end of the scale compared to other Virginia
16 cooperatives. The mid-Atlantic chart provided by Ms. Whited, however, does not
17 provide a relevant basis for evaluating the Cooperative’s fixed charge as it contains the
18 fixed charges of several municipal utilities, which tend to have far more densely
19 populated service areas than do cooperatives, and investor-owned utilities, which also
20 often have more densely populated service territories.

21 **Q29. Does this conclude your rebuttal testimony in this proceeding?**

22 A. Yes, it does.

**Responses of Rappahannock Electric Cooperative
to Office of the Attorney General's Division of Consumer Counsel Discovery Request
Virginia State Corporation Commission
Case No. PUR-2017-00044**

Discovery request submitted by: OAG

Discovery request set number: First

Date received: August 7, 2017

Response prepared by or under the direction of: Matthew A. Faulconer, REC

Response date: August 16, 2017

OAG-I-12

Explain why it is necessary for REC to seek the proposed changes to its customer access charges at this time.

RESPONSE:

Changes to the Access charges are being sought "at this time" because REC has had limited opportunities to make such changes since 1992. As noted in paragraph 5 of the Cooperative's Application, this is REC's first, non-special purpose general rate application since 1992. The following is a brief description of the few rate applications REC has brought before the Commission in the past quarter century:

Case No. PUE-1992-00038: Application for a General Increase in Electric Rates. This application and the resulting rates – including the current \$10.00 Access Charge – were based on expenses during the test year that ended December 31, 1991.

Case No. PUE-2002-00419: Application for approval of revenue-neutral functional unbundling of rates to facilitate retail choice.

Case No. PUE-2013-00052: Application for approval of a plan to migrate transitioning customer to the Cooperative's legacy rates. To provide a "static target" to which consumers in the acquired service area would transition, REC chose not to change the rates or rate structure applicable in its legacy territory, other than a minor rebalancing between distribution revenue and electricity supply service revenue necessary to establish base rates that reflect a pass through of wholesale power costs on a dollar-for-dollar basis.

REC's opportunities to modify its rate structure have been further limited by a condition of approval of its application to acquire a portion of the Virginia service area and assets of the Potomac Edison Company, d/b/a Alleghany Power. Specifically, REC agreed to waive the statutorily-granted authority (see Va. Code § 56-585.3 A. 2 and 4) for its board of directors to adjust rates, including revenue neutral adjustments between fixed and variable charges, through

December 31, 2019. Therefore, this 2017 application for general rate relief is the Cooperative's first opportunity to make structural changes to its rates for delivery service, including adjustments reasonably calculated to align the collection of the fixed costs of owning and operating its electric distribution system with the fixed monthly charge paid by customers rather than through volumetric charges associated with the use of electric energy.

BEFORE THE VIRGINIA STATE CORPORATION COMMISSION

CASE NO. PUR-2017-00044

REBUTTAL TESTIMONY

OF

LAWRENCE G. ANDREWS

ON BEHALF OF

RAPPAHANNOCK ELECTRIC COOPERATIVE

October 17, 2017

Rappahannock Electric Cooperative
Case No. PUR-2017-00044
Lawrence G. Andrews
Summary of Rebuttal Testimony

The Rebuttal Testimony of Lawrence G. Andrews provides as follows:

REC accepts the majority of Commission Staff's accounting adjustments and recommendations; however, the Cooperative disagrees with the following O&M expense adjustments as reflected in Staff witness Welsh's pre-filed testimony. REC's rebuttal testimony and workpapers exhibits fully support the three expense adjustments which differ from Staff's testimony.

- a) Staff Adjustment No. 11 – Adjustment to Payroll Expense. REC's adjustment to payroll expense includes additional support for maintaining a rate year staffing level that is more in line with what the Cooperative has experienced during the last 20 months.
- b) Staff Adjustment No. 18 – Adjustment to Right of Way Clearing. REC explains how it will address staffing issues with its contractors so that the Cooperative can maintain a 5-Year rotation for the rate year projected level of expense for right of way clearing.
- c) Staff Adjustment No. 23 – Adjustment to Credit Card Fees Expense. REC asserts that growth in credit card usage will increase during the rate year. The Cooperative uses support based on the increase in electronic payments since 2006 to illustrate growth in credit card transactions that is reasonably predicted to occur during the rate year.

Finally, the Cooperative will respond to the testimony presented by Staff witness Chang M. Lee regarding the appropriate TIER range.

**REBUTTAL TESTIMONY
OF
LAWRENCE G. ANDREWS
ON BEHALF OF
RAPPAHANNOCK ELECTRIC COOPERATIVE
BEFORE THE
STATE CORPORATION COMMISSION OF VIRGINIA
CASE NO. PUR-2017-00044**

1 **I. INTRODUCTION**

2 **Q1. Please state your name, position, and business address.**

3 A. My name is Lawrence G. Andrews, and I am the Manager of Administrative
4 Services/Controller at Rappahannock Electric Cooperative (“REC” or the
5 “Cooperative”). My business address is P.O. Box 7388, Fredericksburg, Virginia 22404.

6 **Q2. Are you the same Lawrence G. Andrews who submitted pre-filed testimony on May**
7 **23, 2017?**

8 A. Yes, I am. In addition to sponsoring various ratemaking adjustments, the depreciation
9 study, and associated workpapers, I also provided an overview of the Cooperative’s
10 current financial results and metrics, discussed REC’s affiliate services, and provided a
11 summary of REC’s future financial status where I discussed what I believed to be a
12 reasonable rate year Times Interest Earned Ratio (“TIER”).

13 **Q3. What is the purpose of your rebuttal testimony in this proceeding?**

14 A. The primary purpose of my rebuttal testimony is to address certain issues raised in
15 Commission Staff (“Staff”) witness Sean M. Welsh’s testimony regarding three expense
16 adjustments, which I discuss below. I will also comment briefly on Staff witness Chang
17 M. Lee’s testimony regarding the appropriate Times Interest Earned Ratio (“TIER) range
18 for the Cooperative as described in his testimony. Finally, I agree with Staff’s

1 recommendations regarding the depreciation study, but for purposes of clarification, the
2 Cooperative would prefer to place the new depreciation rates into effect at the same time
3 its newly approved retail rates go into effect, even if rates are placed into effect after
4 January 1, 2018.

5 **II. RESPONSE TO THE COMMISSION STAFF TESTIMONY**

6 **Q4. What is your overall reaction to Staff's testimony?**

7 A. The Cooperative appreciates the Staff's time and effort in analyzing REC's Application.
8 Staff has demonstrated that it possesses a sound understanding of REC's Application and
9 has provided REC with constructive feedback and timely communications throughout
10 this proceeding.

11 **Q5. Have you reviewed the pre-filed direct testimony of Staff witness Welsh?**

12 A. Yes, I have.

13 **Q6. What is your response to the testimony of Staff witness Welsh?**

14 A. Except for the three adjustments discussed below, the Cooperative accepts Staff's
15 expense adjustments. REC provides further clarification and support for the following
16 expense adjustments as summarized below:

17 **1) Staff Adjustment No. 11 – Adjustment to Payroll Expense**

18 REC agrees with Staff's methodology to compute rate year payroll; however,
19 the staffing level as of the July 31, 2017 update period chosen by Staff does
20 not reflect the Cooperative's historical or going level staffing levels.

21 **2) Staff Adjustment No. 18 – Adjustment to Right of Way Clearing Expense**

22 REC disagrees with Staff's position on Right of Way Clearing expense and

1 believes that the full level of expense as proposed by the Cooperative should
2 be recognized.

3 **3) Staff Adjustment No. 23 – Adjustment to Credit Card Fees Expense**

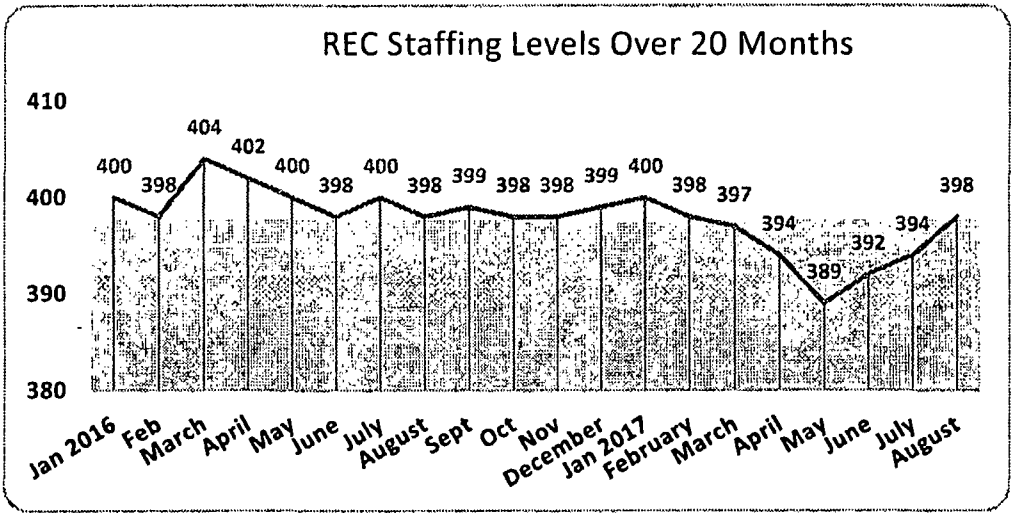
4 REC disagrees with Staff’s position not to include any additional expense to
5 account for growth in its adjustment to reflect rate year credit card fees
6 expense.

7 **Q7. Do you believe the employee staffing level at the end of Staff’s update period**
8 **accurately reflects REC’s staffing level throughout the rate year?**

9 A. No, I do not. At the end of Staff’s update period of July 31, 2017, REC’s employee
10 count was 395 full-time employees (“FTEs”). While REC does agree with Staff that the
11 majority of organizations do experience some variability in maintaining full staffing, the
12 Cooperative does not believe that a staffing level of 395 employees represents the going
13 level of employees for the rate year. REC’s normal staffing levels have been
14 approximately 400 FTEs. Based on the Cooperative’s monthly staffing data for the last
15 20 months (January 2016 through August 2017), staffing has averaged 398 FTEs, which
16 is three FTEs above the staffing level resulting from Staff’s update period. As shown in
17 Rebuttal Exhibit 2, the Cooperative had an average of 400 employees over that 12-month
18 period from January 1, 2016 through December 31, 2016. This trend continued into 2017
19 until the months of April through July. The four-month period from April to July was
20 abnormal because it included several employee retirements followed by a period of
21 recruitment and hiring, resulting in an artificially low staffing level during that four-
22 month period. As illustrated by the chart below, the trend reversed during the month of
23 May and is returning to a more normal staffing level. As of the time of this testimony,

1 REC has 396 FTEs and has two additional jobs posted that are expected to be filled by
2 the end of 2017.

3



4

5 REC proposes to use the median salary of \$80,392 for three positions it expects to
6 include during the rate year to maintain a normal level of staffing.¹ In addition to the
7 revenue requirement increase for the direct salaries the Cooperative grosses up the three
8 salaries (3 x \$41,804) to account for all employee benefits. The Cooperative's proposal
9 increases payroll expense, including benefits, by \$366,588 above the Staff's proposed
10 adjustment of \$233,986, for a total rate year adjustment of \$600,574.

11 **Q8. Please comment on the Staff's adjustment to the Cooperative's proposed right of
12 way clearing expense.**

13 A. The Cooperative acknowledges that its right of way clearing expense was less than
14 expected in the update period as compared to the test year. This reduction in expected
15 expense was caused by REC's current two contractors' inability to meet the
16 Cooperative's 5-year right of way rotation schedule as a result of the contractors' staffing

¹ The source for developing the median salary was the payroll list provided to Staff as REC's confidential response to Data Request No. 143 on August 18, 2017, which is included in Appendix B to Staff witness Welsh's testimony.

1 issues. Should this reduced staffing level persist, the Cooperative could be at risk of
2 regressing to a 6-year right-of-way maintenance schedule, which would likely
3 compromise reliability, as there would be greater risk of tree-related outages and
4 accessing downed or damaged lines would become more difficult and time consuming.
5 The Cooperative strongly believes maintaining a 5-year maintenance schedule is critical
6 to its distribution operations and is essential in order to continue providing reliable and
7 safe electric service, and is diligently pursuing multiple solutions to address the current
8 deficiency. Among the many options being considered, two are being actively pursued:
9 1) securing the service of a third contractor to supplement the two who are currently
10 under contract; and 2) allowing the existing two contractors to exceed the normal annual
11 escalator to recoup the expense of increasing labor rates to the level adequate to attract
12 and retain the workforce necessary to perform the right of way maintenance work. Staff
13 stated in its testimony that procuring a third contractor cannot “be reasonably predicted to
14 occur.” REC has been actively seeking a third contractor that can fulfill the
15 Cooperative’s ongoing needs, and as recently as late August, REC was very close to
16 signing a contract with a third contractor. Unfortunately, that contractor chose not to
17 engage with REC due to labor challenges similar to those being experienced by the
18 Cooperative’s existing right-of-way contractors. The Cooperative is committed to
19 resolving the current deficiency in its right of way contractors’ performance, and is
20 confident that either one or perhaps a combination of the two identified potential
21 solutions will be implemented in the first quarter of the rate year. Based on the
22 Cooperative’s current discussions with its contractors, implementing either option will
23 require the Cooperative to at least equal, if not exceed, its currently budgeted amount for

1 right-of-way clearing expense. The Cooperative thus proposes that the Commission
2 approve the Cooperative's original adjustment for right of way clearing, \$811,709, which
3 is based on the Cooperative's budgeted amount for this expense.

4 **Q9. Do you agree with Staff's adjustment to credit card fees expense?**

5 A. No, I do not. REC has reviewed Staff's testimony and related workpaper for its
6 calculation of credit card fees, which resulted in additional jurisdictional expense of
7 \$514,642. While the Cooperative does not dispute Staff's methodology for arriving at its
8 2017 level of expense, REC does take exception to Staff's indication that future growth
9 in credit card transactions "cannot be reasonably predicted to occur."

10 According to a 2016 study by the Federal Reserve System, the number of debit
11 and credit card payments in the country reached over 103 billion in 2015, which is up
12 nearly 20 billion since 2012.² Staff's testimony confirms such trends for the
13 Cooperative's debit and credit card payments, as it reflects constant growth each month
14 of the update period, particularly the months of March through July. It is important to
15 note that the Cooperative began incurring credit card fees – meaning users were not billed
16 a service fee by the third party provider – in February, upon implementation of a new
17 customer information and billing system. Prior to that, REC accepted credit card
18 payments through a third-party processor who charged the member directly a fee of \$2.95
19 per transaction. Even though the fee was eliminated effective in February, the
20 Cooperative did not announce it because, at that time, REC had no means of passing
21 through the related expense increases from credit card fees. With the expectation that the
22 credit card fee recovery will be included in base rates approved in this proceeding, the

² The Federal Reserve Payments Study 2016 at p. 2, Key Findings,
<https://www.federalreserve.gov/newsevents/press/other/2016-payments-study-20161222.pdf>.

1 Cooperative's CEO announced that credit card fees had already been eliminated during
2 REC's Annual Meeting on August 8, more than a week after the end of Staff's update
3 period. Even in the absence of general promotion and communication to the
4 membership, credit card payments increased in August and September. REC's own
5 experience with credit/debit card payments indicate not only a consistent growth trend in
6 the use of these forms of payments,³ but also that the popularity and use of such
7 payments increases dramatically after any surcharge or service fee resulting from such
8 payment method is reduced.⁴ Certainly, it is very reasonable to predict that similar – if
9 not greater – growth will occur as more Cooperative members become aware that the fee
10 has been eliminated. Such awareness will occur when the no-fee payment option is more
11 broadly communicated after implementation of the proposed new rates, which are
12 designed to recover the credit card costs. To summarize, as evidenced by the credit card
13 transaction data previously provided to Staff and included as Rebuttal Exhibit 5, steady
14 growth has occurred in the number of credit card transaction year after year since 2006.
15 Once members become aware of the no-fee option, more growth is anticipated to occur.
16 As illustrated in REC's Rebuttal Exhibit 4, the Cooperative accepts Staff's credit card
17 expense amount of \$514,642 for 2017 but not for the rate year. The Cooperative has
18 applied a conservative growth rate projection of 15.15% (after eliminating two unusually
19 high outlier years from the historical data evaluated), which increases 2017 expense by
20 \$77,968 for a total jurisdictional rate year expense of \$592,610. Without this growth rate

³ REC has been maintaining records on the growth of credit/debit card payments for many years and as represented to Staff through the Cooperative's response to Data Request No. 137/138, the number of credit/debit card payments has experienced steady growth year-after year. These responses are attached as Rebuttal Exhibit 5.

⁴ When REC first began offering credit card payments through a third party, its vendor, Kubra charged REC members using the service a \$4.95 per transaction service fee. Effective in February 2013, the fee reduced to \$2.95 per transaction. As illustrated in REC's Rebuttal Exhibit 4, a significant increase in credit/debit card payment transactions occurred after Kubra reduced the fee. This fee remained in effect until REC began incur the cost of processing credit card payments on February 6, 2017.

1 projection, REC believes that it will significantly under recover its expenses for credit
2 card fees during or after the rate year. Based on past evidence of growth in credit/debit
3 card payments and the steady growth realized using these payment options since
4 February 2017, REC believes it has appropriately met the standard of “reasonably
5 predicted to occur” for rate year credit card fees expense with a conservative growth rate
6 projection.

7 **Q10. Have you reviewed the pre-filed direct testimony of Staff witness Chang Lee?**

8 A. Yes, I have.

9 **Q11. Do you have any other comments or concerns regarding Staff witness Lee’s**
10 **testimony?**

11 A. REC believes that Staff witness Lee has carefully examined the Cooperative’s
12 Application and made recommendations that are reasonable. The Cooperative is in
13 agreement with Staff witness Lee’s testimony that a reasonable TIER range for REC is
14 2.0 to 2.50. Based on REC’s Rebuttal Exhibit 2, the proposed rates provide a rate year
15 TIER of 2.50. Therefore, the Cooperative requests the Commission approve the rates as
16 proposed. Even if the Commission does not accept all of the Cooperative’s adjustments
17 and finds that the proposed rates produce a rate year TIER that is not materially above
18 2.50, consistent with the testimony of Staff witnesses Welsh and Lee, the Cooperative
19 still requests that the Commission approve the proposed rates as filed.

20 **Q12. Does this conclude your rebuttal testimony?**

21 A. Yes, it does.

Rebuttal Summary of Adjustments
 Witness: Andrews

Rappahannock Electric Cooperative
 Case No. PUR-2017-00044
 Summary of Rebuttal O&M Adjustments

<u>Line No.</u>	<u>REC Adj. No.</u>	<u>Staff Adj. No.</u>	<u>O&M Expense Rebuttal Adjustments</u>	<u>REC Rebuttal</u>	<u>Per Staff Pre-filed Testimony</u>	<u>Difference</u>
1	6-10	11	Adjustment to Payroll Expense	\$ 600,574	\$ 233,986	\$ 366,588
2	6-17	18	Adjustment to Right of Way Clearing Expense	\$ 811,709	\$ 313,663	\$ 498,046
3	6-22	23	Adjustment to Credit Card Fee Expense	\$ 592,610	\$ 514,642	\$ 77,968
4			<u>Total O&M Expense Rebuttal Adjustments</u>	<u>\$ 2,004,893</u>	<u>\$ 1,062,291</u>	<u>\$ 942,602</u>

Rebuttal Exhibit 1
 Witness: Andrews

Rappahannock Electric Cooperative
Case No. PUR-2017-00044
Rebuttal to Staff Adjustment No. 11 - Payroll Expense

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>
1	*Median Salary at July 1, 2017	\$ 80,392
2	Times: Fringe Benefits Factor.	x <u>1.52</u>
3	Cost per Employee	= \$ 122,196
4	Times: Cost of three employees	x <u>3</u>
5	Rate Year Additional Payroll for Normal Staffing Level	= \$ 366,588
6	Plus: Staff Adjustment No. 11 - Juris. Labor Expense Adj.	+ <u>\$ 233,986</u>
7	Total Rate Year Payroll Expense Adjustment	= <u><u>\$ 600,574</u></u>

*Source is REC Confidential Response to Staff Data Request No. 143 provided on 8/18/2017.

Rappahannock Electric Cooperative
Case No. PUR-2017-00044
Rebuttal to Staff Adjustment No. 11 - Payroll Expense

<u>Line No.</u>	REC FTEs by Month/Year			
1				
2	2016			
3	Jan	400		
4	Feb	398		
5	Mar	404		
6	Apr	402		
7	May	400		
8	Jun	398		
9	Jul	400		
10	Aug	398		
11	Sep	399		
12	Oct	398		
13	Nov	398		
14	Dec	399		
15	Average	399.50	2016 Total	4,794
16	2017 YTD			
17	Jan	400		
18	Feb	398		
19	Mar	397		
20	Apr	394*	* Months well below normal	
21	May	389*	Refer to graph on Testimony Page 4	
22	Jun	392*		
23	Jul	394*		
24	Aug	398		
25	Average	395.25	2017 YTD	3,162
26	Sum of 20-Month FTE Counts			7,956
27	Average FTEs over 20-month period			398

Rappahannock Electric Cooperative
Case No. PUR-2017-00044
Rebuttal to Staff Adjustment No. 18 - Right of Way Clearing Expense

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>
1	2017 - 2018 Projected ROW Expense	\$ 7,904,050
2	Additional ROW Expense for 2018 based	
3	on 2.25% Annual Contract Escalator	+ \$ <u>177,841</u>
4	Rate Year ROW Expense	= \$ 8,081,891
5	Less: Test Year Right of Way Clearing	- \$ <u>7,230,418</u>
6	To Adjust	= \$ 851,473
7	Times: Jurisdictional Factor #12	x \$ <u>0.9533</u>
8	Total Adjustment to Right of Way Clearing Expense	= \$ <u><u>811,709</u></u>

Rappahannock Electric Cooperative
Case No. PUR-2017-00044
Rebuttal to Staff Adjustment No. 23 - Credit Card Fees Expense

*** Year-to-Year Increase in Credit/Debit Card Transactions**
2006 through 2016

Line No.	Years			Percentage of Increase
1	2015	to	2016	9.56%
2	2014	to	2015	18.73%
3	2013	to	2014	18.90%
4	2012	to	2013	27.93%
5	2011	to	2012	4.41%
6	2010	to	2011	16.29%
7	2009	to	2010	35.95%
8	2008	to	2009	15.33%
9	2007	to	2008	14.70%
10	2006	to	2007	23.32%
11	Average Increase in Credit/Debit Card Transactions			18.51%
12	Average Increase after Eliminating Outlier			
13	Years 2012 to 2013 and 2009 to 2010			15.15%
14	Apply rate year growth percentage to			\$ 532,425
15	Staff's adjustment to credit card expense:			
16	Times: Rate Year Growth Projection			15.15%
17	Total Projected Rate Year Expense			\$ 613,087
18	Times: Jurisdictional Factor			96.66%
19	Jurisdictional Adjustment to Credit Card Fees Expense			\$ 592,610

*Source: Data provided to Staff in response to DR No. 137/138

Rappahannock Electric Cooperative
Case No. PUR-2017-00044
REC Response to Staff Data Request Nos. 137/138
Credit Card Transactions by Month for the
Period of 2006 through 2016

Month	Credit Card Transactions
January 2006	3,489
February 2006	3,458
March 2006	3,938
April 2006	3,626
May 2006	3,491
June 2006	3,109
July 2006	2,634
August 2006	3,591
September 2006	3,861
October 2006	3,947
November 2006	3,276
December 2006	2,948
Average	3,447

Month	Credit Card Transactions
January 2007	4,240
February 2007	3,869
March 2007	4,327
April 2007	4,499
May 2007	4,693
June 2007	4,048
July 2007	4,045
August 2007	4,204
September 2007	4,323
October 2007	5,236
November 2007	3,893
December 2007	3,637
Average	4,251

171020289

Month	Credit Card Transactions
January 2008	4,943
February 2008	4,907
March 2008	4,993
April 2008	5,524
May 2008	4,796
June 2008	4,455
July 2008	4,637
August 2008	4,482
September 2008	5,260
October 2008	5,260
November 2008	4,279
December 2008	4,977
Average	4,876

Month	Credit Card Transactions
January 2009	5,226
February 2009	5,077
March 2009	6,474
April 2009	5,988
May 2009	5,451
June 2009	5,644
July 2009	5,352
August 2009	5,158
September 2009	6,060
October 2009	5,855
November 2009	5,104
December 2009	5,920
Average	5,623

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Month	Credit Card Transactions
January 2010	5,637
February 2010	5,870
March 2010	7,924
April 2010	6,888
May 2010	6,201
June 2010	7,432
July 2010	8,150
August 2010	9,344
September 2010	9,065
October 2010	8,152
November 2010	8,978
December 2010	8,099
Average	7,645

Month	Credit Card Transactions
January 2011	7,847
February 2011	8,808
March 2011	10,337
April 2011	9,144
May 2011	8,947
June 2011	9,195
July 2011	7,917
August 2011	9,416
September 2011	9,173
October 2011	8,536
November 2011	9,211
December 2011	8,155
Average	8,891

Month	Credit Card Transactions
January 2012	9,697
February 2012	8,204
March 2012	8,759
April 2012	9,425
May 2012	9,174
June 2012	8,184
July 2012	9,445
August 2012	9,273
September 2012	8,910
October 2012	11,253
November 2012	10,038
December 2012	9,031
Average	9,283

Month	Credit Card Transactions
January 2013	10,875
February 2013	11,108
March 2013	10,987
April 2013	13,141
May 2013	12,504
June 2013	10,742
July 2013	12,139
August 2013	11,540
September 2013	11,996
October 2013	13,541
November 2013	11,449
December 2013	12,481
Average	11,875

171030283

Month	Credit Card Transactions
January 2014	13,629
February 2014	12,540
March 2014	14,213
April 2014	15,549
May 2014	13,879
June 2014	13,519
July 2014	14,389
August 2014	13,071
September 2014	15,193
October 2014	14,877
November 2014	13,091
December 2014	15,529
Average	14,123

Month	Credit Card Transactions
January 2015	15,903
February 2015	16,010
March 2015	18,495
April 2015	17,342
May 2015	15,839
June 2015	17,085
July 2015	16,337
August 2015	15,722
September 2015	17,664
October 2015	16,693
November 2015	16,097
December 2015	18,035
Average	16,769

Month	Credit Card Transactions
January 2016	16,801
February 2016	18,352
March 2016	19,882
April 2016	17,670
May 2016	17,926
June 2016	18,024
July 2016	16,718
August 2016	19,860
September 2016	18,616
October 2016	18,017
November 2016	20,108
December 2016	18,486
Average	18,372

BEFORE THE VIRGINIA STATE CORPORATION COMMISSION

CASE NO. PUR-2017-00044

REBUTTAL TESTIMONY

OF

JACK D. GAINES

ON BEHALF OF

RAPPAHANNOCK ELECTRIC COOPERATIVE

October 17, 2017

Rappahannock Electric Cooperative
Case No. PUR-2017-00044
Jack D. Gaines
Summary of Rebuttal Testimony

My rebuttal testimony supports the following:

1. The Cooperative accepts all of Staff's rate year accounting adjustments under present rates except those specifically identified in the rebuttal testimony of Cooperative witness Andrews.
2. The Staff has not calculated updated rate year revenues under the Cooperative's proposed rates. The proposed rates produce a revenue increase of \$22,215,846 when applied to the Staff's updated rate year billing determinants.
3. \$96,747 of the updated revenue increase is directly related to power cost recovery through Schedule PCA. Reflecting additional PCA revenue under the Cooperative's proposed rates is necessary to maintain a dollar for dollar balance between supply revenues and purchased power costs as calculated using Staff's updated rate year billing determinants.
4. The rate year TIER produced by the Cooperative's proposed rates is 2.50 at the rate year levels recommended by Staff as modified to reflect the three expense adjustments identified by Cooperative witness Andrews. The Cooperative is requesting that the Commission approve the rates as proposed since the rate year TIER produced by those rates is within the range considered reasonable by the Staff and the Cooperative.
5. Revenue and tariff allocation:
 - a. Staff witness Tufaro's recommendation for allocating any reduction in the revenue increase ordered by the Commission should be revised to state that any such reduction be allocated in proportion to the distribution increases proposed by the Cooperative. The Cooperative requests that such an allocation be subject to certain rate design limits.
 - b. The Cooperative requests that alternatively, any such reduction be allocated in the aggregate only to Schedules A-1, A-2, A-P-1, and A-1-TOU and that the distribution rates of each remain equal to one another.
 - c. The Cooperative requests that any such reduction be applied to the distribution energy rates so that the Access Charges take effect as proposed.
6. Contrary to the testimony of Sierra Club witness Whited, the Cooperative considered all of the Bonbright rate making criteria in the design of the proposed rates. The rates proposed by the Cooperative better reflect REC's cost of service and are therefore more equitable. The Cooperative has purposefully designed the proposed residential and small commercial rates such that they promote more efficient use of electricity or otherwise charge customers more appropriately for less efficient use.

**REBUTTAL TESTIMONY
OF
JACK D. GAINES
ON BEHALF OF
RAPPAHANNOCK ELECTRIC COOPERATIVE
BEFORE THE
STATE CORPORATION COMMISSION OF VIRGINIA
CASE NO. PUR-2017-00044**

1 **I. INTRODUCTION**

2 **Q1. Please state your name and business address.**

3 A. My name is Jack D. Gaines. My business address is P.O. Box 88039, Dunwoody,
4 Georgia 30356.

5 **Q2. By whom are you employed and in what capacity?**

6 A. I am employed by and am president of JDG Consulting, LLC (“JDG”).

7 **Q3. Have you previously submitted testimony with the State Corporation Commission**
8 **(“Commission”) in this proceeding?**

9 A. Yes, I submitted pre-filed direct testimony on behalf of Rappahannock Electric
10 Cooperative (“REC” or the “Cooperative”) in this proceeding on May 23, 2017.

11 **Q4. What is the purpose of your rebuttal testimony in this proceeding?**

12 A. My rebuttal testimony is in response to the testimonies of Commission Staff (“Staff”)
13 witnesses Sean M. Welsh, Chang M. Lee, and Marc A. Tufaro, and to the testimony of
14 the Sierra Club’s witness Melissa Whited in this proceeding. In addition, I will respond
15 to and adopt certain of Staff’s recommendations, and will present the Cooperative’s
16 rebuttal position regarding the effects of the proposed rates on rate year revenues,
17 margins, and TIER.

1 **Q5. Are there exhibits attached to your rebuttal testimony?**

2 A. Yes, I am sponsoring the following schedules to my rebuttal testimony:

- 3 Rebuttal Schedule 1 – Updated Rate Year Revenues – Present and Proposed Rates
- 4 Rebuttal Schedule 2 – Financial Status Statement

5 **II. RESPONSE TO THE COMMISSION STAFF**

6 **Q6. Before responding to Staff’s specific recommendations, please provide your overall**
7 **reaction to Staff’s testimony in this proceeding.**

8 A. I would say that the Staff has done a good job in analyzing REC’s Application, as well as
9 the proposed tariff changes. Staff expended the time and effort needed to understand the
10 details of the Cooperative’s Application and have provided constructive feedback.

11 **Q7. Have you reviewed the pre-filed testimony of Staff witness Sean W. Welsh?**

12 A. Yes, I have.

13 **Q8. What is your response to the testimony of Staff witness Welsh?**

14 A. Except for those identified in the rebuttal testimony of Cooperative witness Lawrence G.
15 Andrews, the Cooperative accepts all of Staff’s accounting adjustments including the
16 update of rate year billing determinants, revenues under present rates, and purchased
17 power costs. Witness Welsh did not, however, include an updated calculation of proposed
18 revenues using the Cooperative’s proposed rates based on Staff’s updated rate year
19 billing determinants.

20 **Q9. Have you calculated the revenues and revenue increase produced by the**
21 **Cooperative’s proposed rates using the Staff’s updated rate year billing**
22 **determinants?**

23 A. Yes, I have. The results are summarized on Rebuttal Exhibit 1. As shown, based on the
24 Staff’s updated rate year billing determinants, the Cooperative’s proposed base rates

would produce an updated rate year revenue increase of \$22,215,625, or \$96,779 more than what was calculated based on the Cooperative's filed rate year.

Q10. Why is it important to update the revenues and revenue increase using the Cooperative's proposed rates applied to the updated rate year billing determinants?

A. There are multiple reasons for updating the proposed rate revenues. First, in its Application, the Cooperative requested that the Commission approve its proposed rates so long as the rate year TIER produced by those rates is found by the Commission to fall within a reasonable range that would normally be appropriate for an electric cooperative in Virginia. Should the Commission approve the Cooperative's rates as proposed, the resulting rate year revenue increase would be \$22,215,625 as opposed to the \$22,119,069. Second, the update to the rate year affects the distribution, ESS, and PCA revenues differently. The breakdown by rate category is shown in column 6 of Rebuttal Schedule 1. For example, the updated distribution revenue increase is \$198,613 higher while the updated base ESS rate revenue decrease is an additional \$91,489. In addition, \$87,983 of the Cooperative's proposed increase in distribution revenues was from Rider DR which has been eliminated from the rate year by Staff. Lastly, the updated amounts by rate class could affect the allocation of the revenue increase ultimately approved by the Commission. The Cooperative requests that the Commission consider these effects when issuing its final order so that there is no confusion with respect to the setting of final rates per the Commission's findings.

Q11. Please explain the PCA True Up amount included in proposed rate revenue as shown on Rebuttal Schedule 1.

A. Under the Cooperative's Schedule PCA-1, booked base ESS revenues plus PCA revenues

1 must equal purchased expense. Any difference between actual ESS/PCA revenue and
2 purchased power expense is deferred as over or under recovery and is credited or
3 collected through the PCA. The Cooperative designed its base ESS rates to recover its
4 calculation of rate year purchased expense assuming a zero PCA factor based on the rate
5 year as filed. Updating the rate year billing determinants slightly changes the customer
6 mix as well as average purchased power expense per kWh. This causes a small imbalance
7 between updated base ESS revenues under proposed rates and updated purchased power
8 expense, resulting in an under recovery. Going forward, that under recovery would be
9 recognized as a revenue offset by crediting revenue and by debiting revenue deferral.
10 Ultimately, it would be charged to customers through the PCA. Accordingly, a PCA
11 revenue true up adjustment is needed to balance updated rate year supply revenue under
12 proposed rates and updated rate year purchased power expense.

13 **Q12. Have you prepared a Financial Status Statement incorporating your updated**
14 **revenue calculations under proposed rates and the O&M expense calculations**
15 **submitted in the rebuttal testimony of Cooperative witness Andrews?**

16 A. Yes, I have incorporated those results on Rebuttal Schedule 2. Rebuttal Schedule 2 is
17 Staff Statement II modified to increase Staff's rate year O&M by \$942,602 per the
18 rebuttal testimony of witness Andrews and to reflect the \$22,215,625 revenue increase
19 under proposed rates as reflected on Rebuttal Schedule 1. With these two modification to
20 Staff's Statement II, the rate year TIER under proposed rates is 2.50, which is within the
21 range that Staff found to be reasonable. Therefore, the Cooperative requests that the
22 Commission approve its rates as filed. Even if the Commission finds that the proposed
23 rates produce a rate year TIER that is not materially above 2.50, consistent with the

1 testimony of Staff witnesses Welsh and Lee, the Cooperative still requests that the
2 Commission approve the proposed rates as filed.

3 **Q13. Have you reviewed the testimony of Staff witness Marc A. Tufaro?**

4 A. Yes, I have.

5 **Q14. Is there any part of witness Tufaro’s testimony that you want to address?**

6 A. Yes, I want to address Staff’s recommendation in response to his Q21 that any decrease
7 in the additional revenue from proposed rates be allocated to the rate classes “in
8 proportion to the distribution revenues of those classes.” Specifically, I believe that it
9 should be in proportion to the proposed increases in distribution revenues of those
10 classes, a position generally supported by the Cooperative subject to certain limitations or
11 clarifications.

12 **Q15. What are those limitations or clarifications?**

13 A. First, the proposed base ESS rates should be approved as filed. Second, rate classes with
14 distribution revenue decreases under proposed rates should not be further reduced. Third,
15 where proposed distribution rates are by design the same from one tariff to another, the
16 allocation should be modified as necessary to maintain those relationships. Specifically,
17 the proposed distributions rates in Schedules A-1, A-2, A-P-1, A-1-TOU are the same.
18 The distribution energy and demand charges of Schedules LP-1 and HD-1 are
19 synchronized. And, the single phase Access Charges of Schedules B-1 and B-3 are the
20 same.

21 **Q16. Is there an alternative to Staff’s revenue allocation recommendation that the
22 Cooperative would suggest for consideration?**

23 A. Yes, since very little of the proposed increase has been allocated to other rates, the

1 Cooperative suggests that 100% of any reduction in the requested revenue increase
2 ordered by the Commission be allocated in the aggregate to Schedules A-1, A-2, A-P-1,
3 and A-1-TOU and that the consistency between distribution rates as proposed be
4 maintained.

5 **Q17. Does the Cooperative agree with Staff's recommendation that any reduction to the**
6 **proposed rates ordered by the Commission be allocated proportionately within each**
7 **class to both the Access Charges and the distribution delivery service rates?**

8 A. No, the Cooperative does not agree. REC believes a better approach in this case is to
9 allocate any reduction to the proposed rates 100% to the energy charge of the distribution
10 delivery service rates because the proposed Access Charges remain well below the cost-
11 based levels.

12 **III. RESPONSE TO SIERRA CLUB**

13 **Q18. Have you reviewed the pre-filed testimony of Sierra Club witness Melissa Whited?**

14 A. Yes, I have.

15 **Q19. What is your response to the testimony of witness Whited?**

16 A. I disagree with witness Whited's recommendation that the Commission reject the
17 Cooperative's proposed Access Charge increases to residential and small commercial
18 customers. Contrary to witness Whited's testimony, the Cooperative's proposed rates are
19 more equitable than present rates because they better reflect the actual cost of service for
20 distribution services and, compared to its present rates, the Cooperative's proposed rates
21 provide additional incentives for energy efficiency, conservation, and distributed
22 generation. The proposed rates do not reflect a "dramatic departure from REC's current
23 rate design" as claimed by witness Whited. The fact is that no structural change in the

1 distribution rate design is proposed by the Cooperative. In addition, the proposed Access
2 Charge increases reflect a balanced approach to achieving more cost based rates with due
3 consideration given to customer impact concerns. While the Cooperative proposes to
4 primarily recover the increase in revenue through the Access Charges, it has also
5 increased the volumetric charges to recover a portion of the increased revenue. By
6 focusing on a single element of the Cooperative's proposed rate design, namely the
7 Access Charges, witness Whited has mischaracterized the overall effect of the proposed
8 rates and has not recognized how the Cooperative's proposed overall rate design better
9 serves the interests of the Cooperative membership as compared to present rates.

10 **Q20. Did the Cooperative consider the rate design criteria referenced by Witness Whited**
11 **when designing the proposed rates in this case?**

12 A. Yes. The Cooperative has made a reasonable effort to design rates based on widely
13 accepted ratemaking principles to the extent practical and in consideration of the
14 referenced criteria. For instance, contrary to witness Whited's assertion, the Cooperative
15 has met the fairness principle with proposed rates that better reflect the underlying cost of
16 service as compared to present rates. Achieving more equitable rates by apportioning the
17 revenue requirement among and within the customer classes based on cost of service to
18 the extent practical is a primary objective of the Cooperative in this case and going
19 forward. Cost based rates and rate elements including the Access Charges are more
20 equitable as they ensure that revenue requirements are fairly apportioned among and
21 within the customer classes. Recovering more of the Cooperative's fixed costs through
22 distribution energy charges as suggested by witness Whited would result in a rate design
23 that is less equitable and less fair to all customers. In particular, a shift in distribution

1 cost recovery away from a standard, class-wide charge to a volumetric charge would
2 result in higher volume customers subsidizing lower volume customers.

3 **Q21. Has the Commission Staff commented on the appropriateness of the Cooperative's**
4 **proposed rates?**

5 A. Yes. Staff witness Tufaro reviewed the Cooperative's proposed rates in consideration of
6 the same Bonbright rate design criteria cited by witness Whited and does not oppose the
7 Cooperative's rate design.

8 **Q22. How do the Cooperative's proposed Access Charges compare to the corresponding**
9 **cost-based level?**

10 A. In this case, the customer related cost of service and corresponding cost-based Access
11 Charge is \$37.00 per month for single phase residential (Schedule A-1), single phase
12 non-residential (Schedule A-2), and small commercial (Schedule B-1). It is
13 approximately \$69.00 per month for three phase service. Under the current rate structure,
14 \$27.00 of the cost of service for customers in rate classes A-1(residential), A-2 (single
15 phase non-residential) and B-1 (small commercial) are being recovered through
16 volumetric rates (\$37.00 - \$10.00 current monthly Access Charge), and \$44.70 of the cost
17 of service for three-phase customers is being recovered through volumetric rates (\$69.00
18 - \$24.30 current monthly Access Charge). To address this discrepancy, and make the rate
19 structure better reflect the cost of service, the proposed monthly single phase and three
20 phase Access Charges for these three rate classes are \$20.00 and \$24.30 per month.

21 **Q23. Among cooperatives, is it a widely accepted practice to increase access charges to**
22 **achieve more cost-based rates?**

23 A. Yes, in my experience, cooperatives recognize the importance of increasing access

1 charges to cost based levels. Moreover, other cooperatives in Virginia have made large,
2 one-time adjustments to the access charges in recent years based on this objective.

3 **Q24. How do you respond to witness Whited's testimony that the Cooperative's proposed**
4 **rate design does not promote efficient use of electricity?**

5 A. The opposite is true. The Cooperative has purposefully designed the proposed residential
6 and small commercial rates such that they promote more efficient use of electricity and
7 charge customers more appropriately for less efficient use.

8 **Q25. How do the Cooperative's proposed rates promote more efficient use of electricity?**

9 A. The Cooperative's rates are unbundled, meaning that the pricing for distribution delivery
10 service is separate from the pricing for energy supply service ("ESS"). It is in the ESS
11 rate design that the Cooperative provides cost based and more targeted price signals that
12 promote more efficient use of electricity, or in the absence of greater efficiency, recovers
13 costs of supply more equitably.

14 **Q26. Please explain.**

15 A. REC has proposed seasonal ESS energy rates including an inverted block structure for
16 the summer months. Simply put, REC is proposing to significantly increase the
17 volumetric charge for residential usage above 800 kWh per month. This price signal has
18 two purposes. First, it will assign cost recovery for peak demand more fairly to those
19 customers most responsible for the peaks. Second, it should promote more efficient use
20 of electricity. A flat rate for energy consumption applies in all non-summer months such
21 that the rate per kWh is the same at all levels. Consumers who use more electricity will
22 pay more in volumetric rates, which promotes energy conservation. These proposed
23 changes in energy rates will enhance customers' ability to control their bills in ways that

1 are more beneficial to themselves and all Cooperative customers.

2 **Q27. Should the volumetric charges in the Cooperative's distribution rates be increased**
3 **for the purpose of promoting energy efficiency?**

4 A. No, distribution rates should be designed primarily to apportion the revenue requirement
5 among and within customer classes based on cost of service to the extent practical.
6 Cooperative customers, who are the owners, are best protected against cross subsidization
7 by this cost based rate design objective. Arbitrarily increasing the volumetric rate to
8 promote conservation would be counter-productive for an electric cooperative as fixed
9 recovery would be shifted form one set of owners to others.

10 **Q28. Mr. Gaines, does this conclude your rebuttal testimony at this time?**

11 A. Yes, it does.

Rappahannock Electric Cooperative
Case No. PUR-2017-00044

Updated Rate Year Revenues - Present and Proposed Rates

Item Col. 1	Adjusted Rate Year Revenues		Adjusted Rate Year Revenues		Adjusted Rate Year Increase		Filed Rate Year Increase		Difference Col. 6 Col. 4 - Col. 5
	Present Rates Col. 2	Proposed Rates Col. 3	Adjusted Rate Year Revenues Col. 3	Proposed Rates Col. 3	Adjusted Rate Year Increase Col. 4	Proposed Rates Col. 3	Filed Rate Year Increase Col. 5		
Operating Revenue									
1 Base Rate - Distribution	\$ 113,960,611	\$ 138,717,841	\$ 138,717,841	\$ 138,717,841	\$ 24,757,229	\$ 24,757,229	\$ 24,558,616	\$ 198,613	
2 Base Rate - ESS	\$ 252,511,375	\$ 237,879,424	\$ 237,879,424	\$ 237,879,424	\$ (14,631,950)	\$ (14,631,950)	\$ (14,540,462)	\$ (91,489)	
3 Subtotal - Base Rate	\$ 366,471,986	\$ 376,597,265	\$ 376,597,265	\$ 376,597,265	\$ 10,125,279	\$ 10,125,279	\$ 10,018,154	\$ 107,124	
4 Schedule LP-2	\$ 294,755	\$ 294,755	\$ 294,755	\$ 294,755	\$ -	\$ -	\$ -	\$ -	
6 Schedule PCA	\$ (11,976,821)	\$ -	\$ -	\$ -	\$ 11,976,821	\$ 11,976,821	\$ 11,995,933	\$ (19,112)	
7 Schedule PCA - True Up	\$ -	\$ 96,747	\$ 96,747	\$ 96,747	\$ 96,747	\$ 96,747	\$ 87,983	\$ 96,747	
8 DR Rider	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (87,983)	
9 Miscellaneous	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
10 Subtotal	\$ 354,789,920	\$ 376,988,767	\$ 376,988,767	\$ 376,988,767	\$ 22,198,847	\$ 22,198,847	\$ 22,102,071	\$ 96,776	
11 Other Revenue	\$ 3,989,224	\$ 4,006,002	\$ 4,006,002	\$ 4,006,002	\$ 16,778	\$ 16,778	\$ 16,778	\$ -	
12 Total Revenue	\$ 358,779,144	\$ 380,994,769	\$ 380,994,769	\$ 380,994,769	\$ 22,215,625	\$ 22,215,625	\$ 22,118,849	\$ 96,776	

Col. 2 - Staff Statement II, Column 5.

Col. 3 - REC response to Staff Data Requests #115 and #116.

Col. 5 - Column 8 of Schedule 3 as filed.

Rebuttal Schedule 1
Witness: Gaines

RAPPAHANNOCK ELECTRIC COOPERATIVE
CASE NO. PUR-2017-00044
FINANCIAL STATUS STATEMENT - FULLY ADJUSTED
FOR THE TWELVE MONTHS ENDED SEPT. 30, 2016

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	
Line No.	Virginia Jurisdictional	Rate-making Adjustments	Amount After Adjustments	DR Rider	Rate Year Amount Excluding DR Rider	Revenue Requirement @ Proposed Rates	Amount After Revenue Requirement	
Operating Revenue								
1	Base Rates	360,065,336	6,406,650	366,471,986	-	366,471,986	10,125,279	376,597,265
2	Sched. LP-2	20,603,620	(20,308,865)	294,755	-	294,755	-	294,755
3	PCA	16,621,387	(28,598,208)	(11,976,821)	-	(11,976,821)	11,976,821	-
4	PCA Deferral/True Up	(2,065,833)	2,065,833	-	-	-	96,747	96,747
5	DR Rider	-	634,636	634,636	634,636	-	-	-
6	Miscellaneous	2,301	(2,301)	-	-	-	-	-
7	Other Revenue	4,157,548	(168,324)	3,989,224	-	3,989,224	16,999	4,006,223
8	Total Revenue	399,384,359	(39,970,579)	359,413,780	634,636	358,779,144	22,215,846	380,994,990
Operating Expense								
9	Purchased Power Expense	283,207,254	(45,231,083)	237,976,171	-	237,976,171	-	237,976,171
10	O&M Expense	65,669,574	3,719,683	69,389,257	475,531	68,913,726	43,722	68,957,448
11	Depreciation & Amortization	28,736,579	5,172,201	33,908,780	73,348	33,835,432	-	33,835,432
12	Tax Expense - Property	4,459,944	35,037	4,494,981	7,846	4,487,135	-	4,487,135
13	Tax Expense - Other	-	-	-	-	-	-	-
14	Total Operating Expense	382,073,351	(36,304,162)	345,769,189	556,725	345,212,464	43,722	345,256,186
15	Operating Margins	17,311,008	(3,666,417)	13,644,591	77,911	13,566,680	22,172,124	35,738,804
16	Interest on Customer Deposits	21,452	-	21,452	-	21,452	-	21,452
17	Donations	60,760	-	60,760	-	60,760	-	60,760
18	Adjusted Operating Margins	17,228,796	(3,666,417)	13,562,379	77,911	13,484,468	22,172,124	35,656,592
19	Capital Credits Accrued	5,375,804	-	5,375,804	-	5,375,804	-	5,375,804
20	Other Income	1,699,772	(520,365)	1,179,407	-	1,179,407	-	1,179,407
21	Interest on Long-Term Debt	17,571,637	(994,076)	16,577,561	34,627	16,542,934	-	16,542,934
22	Other Interest Expense	-	-	-	-	-	-	-
23	Other Expense	872,569	-	872,569	-	872,569	-	872,569
24	Total Margin	5,860,166	(3,192,707)	2,667,459	43,284	2,624,175	22,172,124	24,796,299
Rate Base								
26	Net Utility Plant	619,183,613	12,920,811	632,104,424	1,320,332	630,784,092	-	630,784,092
27	Allowance for Working Capital	19,128,179	590,273	19,718,451	58,627	19,659,824	4,160	19,663,984
28	Other Rate Base Deductions	(9,562,960)	(453,238)	(10,016,198)	-	(10,016,198)	-	(10,016,198)
29	Total Rate Base	628,748,832	13,057,846	641,806,677	1,378,959	640,427,718	4,160	640,431,878
30	TIER	1.33		1.16	2.25	1.16		2.50
31	DSC	1.76		1.76		1.76		2.49
32	Return on Rate Base	2.74%		2.26%		2.26%		2.26%
33	Return on Margins & Equities	1.64%		0.75%		0.74%		6.95%
34	Capital Credits Received	1,185,744	-	1,185,744	-	1,185,744	-	1,185,744
35	Margins & Equities	356,574,342	258,479	356,832,821	-	356,832,821	-	356,832,821
36	Principal Payments on LT Debt	12,147,157	1,468,838	13,615,995	-	13,615,995	-	13,615,995