SCC-62

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

APPLICATION OF

RAPPAHANNOCK ELECTRIC COOPERATIVE **CASE NO. PUR-2017-00044**

For a general increase in rates

REPORT OF HOWARD P. ANDERSON, JR., HEARING EXAMINER

December 18, 2017

HISTORY OF THE CASE

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

On June 16, 2017, the Commission issued an Order for Notice and Hearing ("Order") in which it, among other things: (i) docketed the Application; (ii) required that the Cooperative publish notice of the Application; (iii) established a procedural schedule; (iv) scheduled a public hearing in Richmond to commence October 31, 2017; (v) permitted the Cooperative to implement its proposed rates, subject to refund with interest, for bills rendered on and after January 1, 2018;[2] (vi) directed any interested party to file a notice of participation on or before August 1, 2017; (vii) and appointed a Hearing Examiner to conduct all further proceedings in this matter on behalf of the Commission.

Concurrent with its Application, REC filed a Motion for Protective Ruling to facilitate the handling of confidential information and to permit the development of all issues related to the Application. A Hearing Examiner's Protective Ruling was entered on June 20, 2017.

Timely notices of participation were filed by the Office of the Attorney General's Division of Consumer Counsel ("Consumer Counsel") and the Board of Supervisors of Frederick County ("Frederick County Board").

On September 19, 2017, the Sierra Club filed a Motion for Leave to file Notice of Participation Out-of-Time ("Motion"), stating its testimony would establish a more complete record by providing testimony on the potential for inefficient price signals, customer inequality, reduced

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[1] Exhibit ("Ex.") 3 and 3C; Application at 1, 6, and 9. REC clarified that while most of the proposed rate schedules filed with the Application indicate an effective date for bills rendered on and after January 1, 2018, Schedules HD-1 and LP-3 indicate that these revised rate schedules would be effective for bills rendered on and after February 1, 2018. *Id.* at 6, n.4.

[2] Counsel for the Cooperative stated at the hearing that the Cooperative will actually place the rates into effect for bills rendered on or after March 1, 2018. Transcript ("Tr.") at 10, 11.

incentives for investments in distributed energy resources and alternatives to doubling the fixed rate charge.

By Ruling dated October 2, 2017, Sierra Club's Motion was granted and its testimony was accepted, as directed, by the Clerk of the Commission. The procedural schedule, as set forth in the Commission's Order, remained in full force and effect.

Over 65 written public comments were filed by customers of the Cooperative expressing their opposition to the proposed rate increase.

The public hearing commenced as scheduled on October 31, 2017. Timothy E. Biller, Esquire, and Lonnie D. Nunley, III, Esquire, appeared as counsel for the Cooperative. Garland S. Carr, Esquire, and Alisson P. Klaiber, Esquire, appeared as counsel for Staff. C. Meade Browder, Jr., Esquire, and Cody T. Murphey, Esquire, appeared as counsel for Consumer Counsel. Roderick B. Williams, Esquire, and Erin L. Swisshelm, Esquire, appeared as counsel for the Frederick County Board. Evan D. Johns, Esquire, and Dorothy E. Jaffe, Esquire, appeared as counsel for the Sierra Club. There were no public witnesses.

Counsel for the Cooperative presented a Stipulation[3] resolving all issues in controversy in this case. The Cooperative, Staff, and Consumer Counsel (the "Stipulating Participants") support all provisions of the Stipulation. The Sierra Club's participation in the Stipulation is limited to supporting Paragraphs (8) and (11). The Sierra Club does not take a position on the remaining provisions of the Stipulation, but does not oppose the Commission's approval of the Stipulation as a resolution of all issues in this proceeding. Although the Frederick County Board is not a Stipulating Participant, it does not oppose the Commission's approval of the Stipulation as a resolution of all issues in this proceeding.[4]

Proof of public notice, the Application, all prefiled testimony and the Stipulation were marked and admitted into the record.

SUMMARY OF THE RECORD

The Cooperative's Direct Testimony and Exhibits

In support of its Application, REC presented the prefiled direct testimony of David F. Koogler, vice president of member services and external affairs for REC; Matthew A. Faulconer, manager of external affairs for REC; Lawrence G. Andrews, manager of administrative services/controller at REC; and Jack D. Gaines, president of JDG Consulting, LLC ("JDG").

David Koogler's testimony provided an overview of the reasons the Cooperative was seeking rate relief in this proceeding and introduced the other REC witnesses who prefiled testimony on behalf of the Cooperative.[5]

[3] Attachment A to this Report.
[4] Ex. 1, n.1 and 2.
[5] Ex. 6.

1. He provided an overview of:
   - REC and its operations throughout the 22 counties in Virginia where the Cooperative serves;
   - how the Cooperative obtains its power supply; and
   - how REC recovers its costs of service through its current rates.

2. He described the Cooperative's acquisition of a portion of the service territory formerly served by Allegheny Power and addressed many of the benefits that have been realized for REC's customers from that acquisition.

3. He also discussed some of the major changes that REC has implemented to improve efficiency and service to its customers.

4. Finally, he introduced the Cooperative's request for additional revenues and described the principles that REC's Board of Directors has provided to guide the Cooperative's requests in this Application.

Matthew A. Faulconer described REC's rate history since 1992, including an overview of the 2010 acquisition of the former Virginia distribution service territory and facilities of Allegheny Power.[6] In addition, he discussed other issues as listed below.

1. He described the subsequent process of migrating and transitioning the former Allegheny Power customers to the Cooperative's rates, and terms and conditions as further described in the 2013 Application.

2. He provided a discussion of developments that have taken place since the 2013 Application, including a demand response application and resulting rider, changes necessary to facilitate a customer using the services of a competitive service provider and other changes at the Cooperative.

3. He discussed REC's proposed changes to the Access Charge, along with the Cooperative's proposal to adopt seasonal supply rates designed to provide consumers with a price signal that is more in line with wholesale power costs.

4. He addressed proposed modifications to the Cooperative's rate schedules and terms and conditions of service, which included modifications to existing rate schedules and riders, along with the introduction and withdrawal of other rate schedules and riders.

5. He described changes to the Terms and Conditions, Schedule F – Fees.

Finally, his testimony concluded with a discussion of the Cooperative's need for additional revenue and its estimated monthly impact on REC's average residential customer. Specifically, Mr. Faulconer testified that, based on five years of data, the Cooperative's average residential class customer uses 1,283 kWh of electricity per month. When the proposed new rates are applied to the

[6] Ex. 7.

five-year average usage for each month, the average residential customer will see an increase of approximately $11.60 per month compared to current rates (the actual difference will vary month-to-month). Mr. Faulconer noted that even at the proposed rate, the average residential customer will be paying nearly $5 less per month than they did on the rates in effect in December 2015. This is primarily due to fluctuations in the Wholesale Power Cost Adjustment and now the Power Cost Adjustment.[7]

Lawrence G. Andrews offered testimony that provided an overview of REC's current financial condition.[8] In addition, he discussed the following:

1. He provided a financial overview and metrics of the test year for the period October 1, 2015 through September 30, 2016;

2. He identified and described the various rate application schedules and workpapers that he either sponsored or co-sponsored;

3. He discussed REC's affiliate transactions that have occurred during the test year;

4. He discussed and described the other operations and maintenance ratemaking adjustments that he sponsors, including an overview of the results of the depreciation study that has been included in this Application; and

5. Finally, he discussed the Cooperative's future financial status, specifically the appropriate level of additional rate year revenues. He also discussed what is the appropriate Times Interest Earned Ratio ("TIER") and debt service coverage ratio for REC to achieve its financial goals and to render adequate and efficient service to its membership.

Jack Gaines testimony explained the methodology and the results of the Cooperative's Class Cost of Service Study ("CCOS") and the proposed revenue distribution to improve class parity based on the CCOS.[9] In addition, he discussed and supported the following proposals and other changes to the Cooperative's rates and tariffs:

1. The Cooperative's proposal to increase rate year jurisdictional revenues by $22.1 million to produce total test year jurisdictional margins of $21.8 million and a 2.25 x jurisdictional TIER;

2. To roll into base rates the rate year level of Schedule PCA-1 revenue based on the rate year level of purchased power expense;

3. To adjust the Electricity Supply Service ("ESS") rates of each rate class to recover the rate year allocated purchased power expense and the corresponding transfer to distribution rates of the non-purchased power costs currently included in base ESS rates;

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[7] *Id.* at 7, 24.
[8] Ex. 8.
[9] Ex. 9.

4. To increase Access Charges to better reflect the cost of service classified as customer-related;

5. To rename certain Schedules and modify tariff language for clarity and consistency;

6. To limit Schedule A-1 to residential and church sanctuary service and to move all other non-residential customers currently served on Schedule A to a new Schedule A-2;

7. To introduce seasonal price differentials into the ESS portions of Schedules A-1 (formerly A), A-2 (new), A-1-P (formerly PE), B-1, B-3, and LP-1 to better reflect the effects of summer load on purchased power expense;

8. To withdraw Schedules AL, MSL, and OLN and to transfer all lighting service to Schedule OL;

9. To remove all A/C Program costs from base rates and transfer total Program cost recovery to the Schedule DR Rider ("DR Rider"); and

10. To introduce Schedule AS-1, a new rider to Schedules HD-1 and LP-3, that would pass through the cost effects of purchasing power from one or more alternative suppliers.

Sierra Club's Direct Testimony

The Sierra Club presented the testimony of Melissa Whited, a principal associate at Synapse Energy Economics ("Synapse"). Synapse is a research and consulting firm specializing in electricity and gas industry regulation, planning and analysis.

Ms. Whited's testimony addressed REC's proposed rate design, focusing specifically on the Access Charge assessed to residential and small commercial customers.[10] Specifically, her testimony:

1. Explained that drastically increasing fixed rate charges results in rate shock, inequitable impacts on customers, reduces customer control over their bills and reduces incentives for energy efficiency conservation and distributed generation;

2. Explained that the Cooperative's proposal would violate the fundamental rate design principles of rate stability, equity, and efficient price signals and would undermine the Commonwealth's efforts to reduce energy consumption and promote energy efficiency; and

3. Provided recommendations to the Commission for alternative methods for addressing the Cooperative's concerns about revenue sufficiency, which will be more equitable, efficient and effective, such as increasing the volumetric rate, revenue decoupling, minimum bills or beneficial electrification.

[10] Ex. 10.

Staff's Direct Testimony and Exhibits

Staff presented the testimony of Marc A. Tufaro, principal utilities analyst in the Commission's Division of Public Utility Regulation; Chang M. Lee, utility analyst in the Commission's Division of Utility Accounting and Finance ("UAF"); and Sean M. Welsh, a senior utility accountant with UAF.

The testimony of **Marc Tufaro**[11] included the following findings and recommendations:

1. Staff believes that while there is a certain amount of subjectivity in REC's CCOS, as is the case in any such study, REC's CCOS produced a reasonable approximation of the costs of serving the various rate classes;

2. REC proposed to either decrease or minimally increase the rate schedules that had highest relative rates of return under current rates. As such, REC's proposed revenue apportionment will move the classes closer to parity;

3. Staff was generally not opposed to the higher seasonal prices as the ESS rate will better reflect the incurrence of costs by REC, which should provide a better pricing signal to REC's customers and potentially serve as a form of demand response;

4. Staff was not opposed to the proposed increases in the Access Charges by REC;

5. Should the Commission approve a revenue increase that is less than the requested amount, Staff would suggest that any decrease in the additional revenue be allocated to all the Schedules in proportion to the distribution revenues of those classes with the allocation within each class being applied to Access Charges and delivery service rates in proportion to the allocation proposed by REC in this proceeding; and

6. Staff did not oppose REC's proposed changes to its rate schedules and its terms and conditions; therefore, Staff recommended that the Commission approve the proposed changes.

Chang Lee calculated REC's total Cooperative interest expense for January 1, 2018 to December 31, 2018 ("Rate Year"), to be $17,509,042, which was $1,048,545 less than the test year total Cooperative amount.[12] His Rate Year interest expense was based on actual December 31, 2016 through June 30, 2017, long-term debt balances projected through the Rate Year, coupled with actual interest rates on such balances, which were then used to project the interest expense for the Rate Year.[13]

Mr. Lee also testified that REC proposed an increase in revenues that would result in either: (i) a jurisdictional TIER of 2.25; or (ii) a TIER within a range of 2.00 to 2.50, if the proposed rates produced a TIER that is greater than 2.00, but less than 2.50. Based on Staff's accounting

[11] Ex. 11.
[12] Ex. 12.
[13] REC does not have any outstanding short-term debt. *Id.* at 2.

adjustments, the proposed revenue increase of $22,119,069 would result in a TIER of 2.54, which is outside of the Cooperative's proposed range of 2.00 to 2.50. Based on Mr. Lee's analysis of various financial metrics for the average electric cooperative compared to that of REC's, as well as indenture and borrowing requirements for REC, he believes that establishing rates that would produce a TIER of 2.25 for the Cooperative were reasonable. Based on his review of REC's Application, the resulting level of margins produced by a TIER of 2.25 also satisfied Code § 56-231.33. A TIER of 2.25 would allow REC to maintain its property in a sound physical and financial condition, maintain its financial integrity at a level that will enable it to raise capital on reasonable terms, and recover sufficient funds to meet any debt requirements.

The testimony of **Sean Welsh**[14] addressed the following topics and made the following findings and recommendations:

1. Based on Staff's analysis, the Cooperative's proposed $22,119,069 revenue increase produces a TIER of 2.54. Based on Staff witness Lee's testimony concerning a reasonable TIER range, Staff does not oppose the requested increase;

2. Staff's Rate Year analysis reflected a fully adjusted TIER of 1.22. Based on the 2.25 TIER midpoint recommended by Staff witness Lee, Staff calculated a Rate Year revenue requirement increase of $17,145,601;

3. Staff calculated a Rate Year DR Program rate adjustment clause revenue of $634,636, based on the Rate Year DR Program costs and a TIER of 2.25. Because they are included in the DR Rider, all DR Program costs and revenues are excluded from Staff's base rate revenue requirement calculation; and

4. Staff calculated adjustments to reflect the Rate Year level of revenue, purchased power, and operational & maintenance ("O&M") expense. The major differences between Staff and the Cooperative discussed in this testimony relate to revenue, payroll expense, right of way expense, and depreciation expense.

Mr. Welsh testified that Staff reviewed the Cooperative's depreciation study and recommended changes to two accounts. Staff recommended account 364, Distribution Poles & Fixtures, utilize a 5.22% annual accrual rate, based on a 35-R2.5 survivor curve and a -55% net salvage rate. Staff recommended account 367, Underground Conductors & Devices, utilize a 3.75% annual accrual rate, based on a 33-R4 survivor curve and a -15% net salvage rate.

The Cooperative's Rebuttal Testimony and Exhibits

REC presented the rebuttal testimony of Matthew Faulconer, Lawrence Andrews, and Jack Gaines.

[14] Ex. 13 and 13C.

Mr. Faulconer commented on the testimonies of Staff witnesses generally, and that of Staff witness Tufaro specifically, and the testimony of Sierra Club's witness Whited in this proceeding.[15] He:

1. Expressed support for Staff's review of the Cooperative's proposed rates;

2. Put into perspective Sierra Club's claim regarding the impact of the proposed rates on "ratepayers providing distributed generation to the Cooperative;" and

3. Countered the claims of Sierra Club's witness 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.

Mr. Andrews testified that REC accepted most of Staff's accounting adjustments and recommendations; however, the Cooperative disagreed with the following O&M expense adjustments as reflected in Staff witness Welsh's prefiled testimony.[16] He testified that REC's rebuttal testimony, work papers, and exhibits fully supported the three expense adjustments which differ from Staff's testimony. These adjustments are listed below.

1. 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.

2. 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.

3. 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, he responded to the testimony presented by Staff witness Lee regarding the appropriate TIER range.

Mr. Gaines' rebuttal testimony[17] supported the following:

1. The Cooperative accepted all of Staff's rate year accounting adjustments under present rates except those specifically identified in the rebuttal testimony of Cooperative witness Andrews;

[15] Ex. 14.
[16] Ex. 15.
[17] Ex. 16.

2. Staff had 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 Staff's updated rate year billing determinants;

3. An updated revenue increase of $96,747 was directly related to power cost recovery through Schedule PCA. Reflecting additional power cost adjustment factor ("PCA") revenue under the Cooperative's proposed rates was 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 requested 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 requested that such an allocation be subject to certain rate design limits.
    b. The Cooperative requested 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 requested that any such reduction be applied to the distribution energy rates so that the Access Charges take effect as proposed; and

6. Contrary to the testimony of Sierra Club's witness Whited, the Cooperative considered all 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 were 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.

Stipulation

A copy of the Stipulation was admitted as an exhibit at the hearing and is also included as an Attachment to this Report.[18] Of particular note, the Stipulating Participants agree that:

1. The Cooperative's net revenues should be increased by $18,000,285, a $4,215,561 reduction in Rate Year revenues produced by the proposed rates. Based on the financial status statement provided in the testimony of Staff witness Welsh, that increase will result in a 2.3 TIER, which is within the 2 to 2.5 TIER range;

[18] Ex. 1.

2. Rates will be calculated using the billing determinants in Staff's testimony;

3. Except as otherwise described in the Stipulation, the Cooperative's proposed Distribution Delivery Charges and Energy Supply Service Charges, including the proposed Access Charges and Seasonal ESS rates, are reasonable and should be approved as set forth in the Application;

4. The proposed continuity of distribution rates should be maintained between Schedules A-1, A-1-P, A-1-TOU, and A-2. The $4,215,561 revenue reduction should be applied in the aggregate to those schedules. For rate design purposes, the resulting increase in revenues initially should be applied to produce an Access Charge for single-phase service of $14.00 and an Access Charge for multi-phase service of $17.00. Any remaining revenue increase to those rates should be applied to the volumetric blocks in proportion to the Rate Year revenues produced by the Cooperative's existing rates. The Stipulating Participants determined the following distribution deliver charges for Schedules A-1, A-1-P, A-1-TOU, and A-2 to be reasonable:

Access Charges	
Single-Phase Service	$14.00 per month
Multi-Phase Service	$17.00 per month
Energy Delivery Charges	
First 300 kWh per month	$0.04743 per kWh
Over 300 kWh per month	$0.03289 per kWh

5. The Cooperative agrees to provide Staff with a copy of the Rural Utility Service's review of the Cooperative's depreciation study and recommendations;

6. The Cooperative agrees to adopt and implement its proposed depreciation rates, as modified by Staff, on the effective date of the rates authorized herein;

7. The Cooperative and the Sierra Club agree to work together regarding implementation of specific methods and procedures to provide Cooperative members advance implementation of specific methods and procedures to provide Cooperative members advanced notice, and an opportunity for members to provide comments to the Cooperative's Board of Directors prior to implementation of any modification to the fixed-charge portion of the Cooperative's rates. The Cooperative and the Sierra Club commit to make reasonable efforts to reach a mutually acceptable agreement regarding such methods and procedures by December 31, 2017; and

8. Any future Schedule DR Rider filings by the Cooperative shall reflect the use of a 2.25 TIER as of the effective date of rates in this proceeding until the Cooperative's next base rate case.

DISCUSSION

The Cooperative seeks approval of its Application pursuant to several related sections of the Code. First, Chapter 9.1, Article 1 of Title 56, the Utility Consumer Services Cooperatives and Utility Aggregation Cooperatives Act, defines reasonable and just rates for service offered by a cooperative:

> Code § 56-231.33. Adequate service; rates.
>
> Regulated utility services offered by a cooperative shall be reasonably adequate, subject to the regulations of the Commission, as provided in § 56-231.34. The charge made by any such cooperative for any regulated utility service rendered or to be rendered, either directly or in connection therewith, shall be nondiscriminatory, reasonable and just, and every discriminatory, unjust or unreasonable charge for such regulated utility service is prohibited and declared unlawful. Reasonable and just charges for service within the meaning of this section shall be such charges as shall produce sufficient revenue to pay all legal and other necessary expenses incident to the operation of the system, and shall include but not be limited to maintenance cost, operating charges, interest charges on bonds or other obligations, to recover such stranded costs and transition costs as may be authorized in this title, . . . it being the intent and purpose hereof that such charges shall produce an income sufficient to maintain such cooperative property in a sound physical and financial condition to render adequate and efficient service and additional amounts that must be realized by the cooperative to meet the requirement of any rate covenant with respect to coverage of principal of and interest on its debt . . . .

That Code section references Code § 56-231.34 which provides in pertinent part that:

> The regulated utility services of a cooperative shall be subject to the jurisdiction of the Commission in the same manner and to the same extent as are regulated utility services provided by other persons under the laws of this Commonwealth.

Chapter 10 of Title 56 provides such other requirement imposed on all utility companies. Specifically, Code § 56-235 provides that:

> If upon investigation the rates, tolls, charges, schedules, or joint rates of any public utility operating in this Commonwealth shall be found to be unjust, unreasonable, insufficient or unjustly discriminatory or to be preferential or otherwise in violation of any of the provisions of law, the State Corporation Commission shall have power to fix and order substituted therefor such rate or rates, tolls, charges or schedules as shall be just and reasonable.

Finally, also applicable to the Application is the Code provision that addresses the regulation of cooperative rates after rate caps, Code § 56-585.3, which clarifies that "[a]fter the expiration or termination of capped rates, the rates, terms and conditions of distribution electric cooperatives subject to Article 1 (§ 56-231.15 et seq.) of Chapter 9.1 of this title shall be regulated in accordance with the provisions of Chapters 9.1 . . . and 10 . . . " That Code section provides several exceptions including addressing rate adjustment clauses and certain actions that can be approved by the cooperative's board of directors without Commission approval.

I find that the record, in conjunction with the statutory framework governing cooperative rates, supports an increase in the Cooperative's net revenues of $18,000,285, which will result in a 2.3 TIER, which is within the 2 to 2.5 TIER range, as more fully outlined in the Stipulation. I further find that the comment period to this Report should be waived since the parties have agreed to the disposition of this case.

FINDINGS AND RECOMMENDATIONS

Based upon the record, including the Stipulation and the applicable law, I find that:

1. The Stipulation is reasonable and should be adopted by the Commission;

2. An increase in the Cooperative's net revenues is justified; and

3. That revenue requirement results in a 2.3 TIER, which is reasonable.

Therefore, **I RECOMMEND** the Commission enter an order that:

1. ***ADOPTS*** the findings of this Report;

2. ***ACCEPTS*** the Stipulation;

3. ***GRANTS*** the Cooperative's Application as modified by the Stipulation; and

4. ***DISMISSES*** this case from the Commission's docket of active proceedings.

Respectfully submitted,

Howard P. Anderson Jr.

Howard P. Anderson, Jr.
Hearing Examiner

The Clerk of the Commission is requested to mail a copy of this Report to: Lonnie D. Nunley, III, Esquire, and Timothy E. Biller, Esquire, Hunton & Williams LLP, Riverfront Plaza, East Tower, 951 East Byrd Street, Richmond, Virginia 23219; and C. Meade Browder, Jr., Senior Assistant Attorney General, Office of the Attorney General, Division of Consumer Counsel, 202 North 9th Street, 8th Floor, Richmond, Virginia 23219-3424; Roderick B. Williams, County Attorney, County of Fredrick, Virginia, 107 North Kent Street, 3rd Floor, Winchester, Virginia 22601; Dorthey E. Jaffe, Esquire, The Sierra Club, 50 F Street, NW, 8th Floor, Washington, District of Columbia 20001; and Evan D. Johns, Esquire, Appalachian Mountain Advocates, 415 7th Street, NE, Charlottesville, Virginia 22902.

ATTACHMENT A

COMMONWEALTH OF VIRGINIA
BEFORE THE
STATE CORPORATION COMMISSION

APPLICATION OF

RAPPAHANNOCK ELECTRIC COOPERATIVE — **CASE NO. PUR-2017-00044**

For a general increase in rates

STIPULATION

This Stipulation represents the agreement between Rappahannock Electric Cooperative ("REC" or the "Cooperative"); the Office of the Attorney General's Division of Consumer Counsel; Sierra Club[1]; and the Staff of the State Corporation Commission ("Staff") (collectively, "Stipulating Participants"), by counsel, as to the application of REC for a general increase in rates ("Application").[2] This Stipulation resolves all issues raised by the Stipulating Participants in this proceeding. The Stipulating Participants hereby agree as follows:

1. The Cooperative's May 23, 2017 Application; July 11, 2017 Revised Tariff Pages; September 14, 2017 Revised Tariff Pages and Schedule; and the Pre-Filed Direct Testimony and Exhibits of Cooperative witnesses David F. Koogler, Matthew A. Faulconer, Lawrence G.

[1] The Sierra Club's participation in this Stipulation is limited to supporting Stipulation Paragraphs (8) and (11). The Sierra Club does not take a position on the remaining provisions of the Stipulation, but does not oppose the Commission's approval of this Stipulation as a resolution of all issues in this proceeding.

[2] In addition to the Stipulating Participants, the Board of Supervisors of Frederick County, Virginia (the "County") is also a party to this proceeding. Although the County is not a Stipulating Participant, the County does not oppose the Commission's approval of this Stipulation as a resolution of all issues in this proceeding.

Andrews, and Jack D. Gaines, dated May 23, 2017, shall be made a part of the record without cross-examination.

2. The Pre-Filed Testimony and Exhibits of Sierra Club witness Melissa Whited, dated September 19, 2017, shall be made a part of the record without cross-examination.

3. The Pre-Filed Testimony and Exhibits of Staff witnesses Sean M. Welsh, Chang M. Lee, and Marc A. Tufaro, dated October 3, 2017, shall be made part of the record without cross-examination.

4. The Pre-Filed Rebuttal Testimony and Exhibits of Cooperative witnesses Matthew A. Faulconer, Lawrence G. Andrews, and Jack D. Gaines, dated October 17, 2017, shall be made a part of the record without cross-examination.

5. The Cooperative's net revenues should be increased by $18,000,285, a $4,215,561 reduction in rate year revenues produced by the proposed rates. Based on Column (5) of the financial status statement provided with the Pre-Filed Testimony of Staff witness Sean M. Welsh, this increase will result in a 2.3 TIER, which is within the 2 to 2.5 TIER range.

6. Rates will be calculated using the billing determinants in Staff's Pre-Filed Testimony.

7. Except as described in Stipulation Paragraph (8), the Cooperative's proposed Distribution Delivery Charges and Energy Supply Service ("ESS") Charges, including the proposed Access Charges and Seasonal ESS rates, are reasonable and should be approved as set forth in the Cooperative's Application with no changes.

8. The proposed continuity of distribution rates should be maintained between Schedules A-1, A-1-P, A-1-TOU, and A-2. The $4,215,561 revenue reduction should be applied

in the aggregate to Schedules A-1, A-1-P, A-1-TOU, and A-2. For rate design purposes, the resulting increase in revenues to these rates initially should be applied to produce an Access Charge for single-phase service of $14.00 and an Access Charge for multi-phase service of $17.00. Any remaining revenue increase to these rates should be applied to the volumetric blocks in proportion to the rate year revenues produced by the Cooperative's existing rates. Accordingly, the following distribution delivery charges for Schedules A-1, A-1-P, A-1-TOU, and A-2 are reasonable and should be approved:

Access Charges	
Single-Phase Service	$14.00 per month
Multi-Phase Service	$17.00 per month
Energy Delivery Charges	
First 300 kWh per month	$0.04743 per kWh
Over 300 kWh per month	$0.03289 per KWh

Note: The Schedule A-1-P Access Charge will be expressed as a daily rate per customer of $0.460274.

9. The Cooperative agrees to provide Staff with a copy of the Rural Utility Service's review of the Cooperative's depreciation study and recommendations when available.

10. The Cooperative agrees to adopt and implement its proposed depreciation rates, as modified by Staff, on the effective date of the rates authorized in this case.

11. The Cooperative and Sierra Club agree to work together regarding implementation of specific methods and procedures to provide Cooperative members advance notice, through multiple means of communication, and an opportunity for members to provide in-person and written comments to the Cooperative's Board of Directors, consistent with Board policy, prior to implementation of any modification to the fixed-charge portion of the Cooperative's rates pursuant to Va. Code § 56-585.3(A)(4). The Cooperative and Sierra Club commit to make reasonable efforts to reach a mutually acceptable agreement regarding such methods and procedures by December 31, 2017.

12. Any future Schedule DR Rider filings by the Cooperative shall reflect the use of a 2.25 TIER as of the effective date of rates in this proceeding until the Cooperative's next base rate proceeding.

13. This Stipulation represents a compromise for the purposes of settlement in this case only and shall not be regarded as a precedent with respect to any ratemaking or any other principle in any future rate case. The Stipulating Participants agree that the resolution of the issues herein, taken as a whole, and the disposition of all other matters set forth in the Stipulation are in the public interest. This Stipulation is conditioned on and subject to acceptance by the Commission and is non-severable and of no force or effect and may not be used for any other purpose unless accepted in its entirety by the Commission, except that this paragraph shall remain in effect in any event.

14. In the event that the Commission or the Hearing Examiner does not accept the Stipulation in its entirety, including the issuance of a recommendation by the Hearing Examiner to not approve the Stipulation, the Stipulating Participants retain the right to withdraw support for the Stipulation. In the event of such action by the Commission or the Hearing Examiner, any Stipulating Participant will be entitled to give notice exercising its right to withdraw support for the Stipulation; provided that the Stipulating Participants may, by unanimous consent, elect to modify the Stipulation to address any modifications required, or issues raised, by the Commission or Hearing Examiner. Should the Stipulation not be approved, it will be considered void and have no precedential effect, and the Stipulating Participants reserve their rights to participate in all relevant proceedings in the captioned case notwithstanding their agreement to the terms of the Stipulation. If the Commission or Hearing Examiner chooses to reject the Stipulation, the Stipulating Participants may request that an ore tenus hearing be convened at

which time testimony and evidence may be presented by the case participants and cross-examination may occur on any issues arising in this proceeding.

RAPPAHANNOCK ELECTRIC COOPERATIVE

October 30, 2017

By: ______________________

Counsel

October 30 2017

OFFICE OF THE ATTORNEY GENERAL'S DIVISION
OF CONSUMER COUNSEL

By ______________________________

Counsel

October 31, 2017

SIERRA CLUB

By ______________________

Dorothy E. Jaffe Counsel

October 31, 2017

STAFF OF THE STATE CORPORATION COMMISSION

By ______________________

Counsel