COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
AT RICHMOND, MAY 2, 2019

PETITION OF
APPALACHIAN POWER COMPANY

For revision of rate adjustment clause, the EE-RAC, pursuant to § 56-585.1 A 5 c of the Code of Virginia

ORDER APPROVING RATE ADJUSTMENT CLAUSE

On September 28, 2018, Appalachian Power Company ("APCo" or "Company"), pursuant to § 56-585.1 A 5 c of the Code of Virginia ("Code") and the Final Order of the State Corporation Commission ("Commission") in Case No. PUR-2017-00126,1 filed with the Commission its petition ("Petition") for approval of an updated rate adjustment clause – the "EE-RAC" – to recover the costs of its proposed energy efficiency ("EE")/demand response ("DR") portfolio ("EE/DR Portfolio").2

The Company is not requesting the Commission's approval of any new EE/DR programs with its current Petition. APCo projects that it will spend approximately $6,194,789 on its current EE/DR Portfolio for the rate year July 1, 2019, through June 30, 2020 ("2019 Rate Year").3 Specifically, the Company requests approval to continue the EE-RAC for the 2019 Rate Year to recover: (i) 2019 Rate Year costs associated with the Company's current EE/DR programs ("Projected Factor"); and (ii) any (over)/under recovery of costs associated with the

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1 Petition of Appalachian Power Company, For approval of a rate adjustment clause, the EE-RAC, pursuant to § 56-585.1 A 5 c of the Code of Virginia and for approval of new energy efficiency programs, Case No. PUR-2017-00126, Doc. Con. Cen. No. 180540050, Final Order (May 16, 2018) ("2018 EE-RAC Order").

2 Supporting testimony and other documents also were filed with the Petition.

3 Ex. 2 (Petition) at 3-4; Ex. 3 (Bacon Direct) at 5-6.
EE/DR Portfolio as of June 30, 2019 ("True-Up Factor"). APCo calculated the margin on operating expenses for the Projected Factor based on a return on common equity of 9.4%, authorized by the Commission in Case No. PUE-2016-00038. The Company proposes a total EE-RAC revenue requirement of $5,836,933 for the 2019 Rate Year, which consists of a Projected Factor in the amount of $6,194,789, and a True-Up Factor credit of $357,856. APCo is not seeking recovery of lost revenues in this proceeding.

For calculating the proposed EE-RAC rates, the Company proposes to allocate the costs of the proposed EE/DR Portfolio to the Virginia tariff classes in accordance with the methodology approved in the 2015 EE-RAC Order, and updates the allocators and billing determinants used to develop class revenue requirements for the year ending December 31, 2016, per the 2017 EE-RAC Order.

On October 26, 2018, the Commission issued an Order for Notice and Hearing that, among other things: docketed this case; required the Company to provide notice of its Petition; established a procedural schedule for notices of participation and prefiled testimony; scheduled a

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4 See Ex. 2 (Petition) at 4, Schedule 46C; Ex. 3 (Bacon Direct) at 5-6, Schedule 2.

5 Ex. 2 (Petition) at 4. See Application of Appalachian Power Company, For the determination of the fair rate of return on common equity to be applied to its rate adjustment clauses, Case No. PUE-2016-00038, 2016 S.C.C. Ann. Rept. 393, 396, Final Order (Oct. 6, 2016).

6 Ex. 2 (Petition) at 4, Schedule 46C; Ex. 3 (Bacon Direct) at 6.

7 Ex. 2 (Petition) at 4; Ex. 3 (Bacon Direct) at 6.


9 See, e.g., Ex. 2 (Petition) at 4. See Petition of Appalachian Power Company, For approval to continue a rate adjustment clause, the EE-RAC, pursuant to § 56-585.1 A 5 c of the Code of Virginia, Case No. PUE-2016-00089, 2017 S.C.C. Ann. Rept. 365, 366, Final Order (May 11, 2017) ("2017 EE-RAC Order").
hearing on the Petition for February 26, 2019; and assigned the case to a Hearing Examiner. The following filed notices of participation in this case: VML/VACo APCo Steering Committee ("Steering Committee"); Old Dominion Committee for Fair Utility Rates ("Committee"); and Office of the Attorney General, Division of Consumer Counsel ("Consumer Counsel"). The Commission received no written comments in this matter.

On February 26, 2019, the Hearing Examiner convened a hearing for this case as scheduled. The Company, Steering Committee, Committee, Consumer Counsel, and Staff of the Commission ("Staff") participated at the hearing. No public witnesses testified at the hearing.

On March 6, 2019, the Hearing Examiner issued the Report of Mary Beth Adams, Hearing Examiner ("Report"). The Hearing Examiner summarized the record in this case and found that: (1) the Commission should approve a new annual revenue requirement for the EE-RAC in the amount of $5,681,269; (2) in future EE-RAC filings, the Company should be required to continue to provide the information recommended by Staff; (3) the updated EE-RAC rates should be implemented for service during the 2019 Rate Year; and (4) the Company should make its next EE-RAC filing on or before September 30, 2019.\textsuperscript{10}

On March 15, 2019, Staff filed comments on the Report. No other participant filed comments on the Report.

NOW THE COMMISSION, upon consideration of this matter, is of the opinion and finds as follows.

\textsuperscript{10} Report at 9.
EE/DR Programs

As noted above, the Company is not requesting the Commission's approval of any new EE/DR programs in this proceeding.11

Revenue Requirement

The Commission agrees with the Hearing Examiner that the record in this case supports a revenue requirement of $5,681,269 for the 2019 Rate Year.12

Cost Caps

The Commission approves the spending amounts for the EE/DR programs as proposed in this proceeding. The Commission also notes that APCo has a statutory obligation to propose an aggregate of at least $140 million in energy efficiency programs pursuant to Enactment Clause 15 of Senate Bill 966.13 Consistent therewith, we do not impose any cost cap for any individual program other than the amount of program-specific spending approved herein.14 In addition as noted above, APCo is not seeking lost revenues in this proceeding, and therefore the amounts for each program approved herein should be spent exclusively on programmatic costs, with no portion for any amount of lost revenues.15

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11 The EE/DR programs were most recently approved in the Commission’s 2018 EE-RAC Order.

12 Report at 8, 9. See also Ex. 5 (Mangalam) at 4, Schedules 1, 2. No participant opposed this revenue requirement. See, e.g., Ex. 8 (Castle Rebuttal) at 1; Tr. 5-7.


14 The Commission has not approved a "portfolio" spending amount; the Company may only spend the specific amount approved for each individual program.

15 While not addressed in this proceeding, it would appear that any future claim for lost revenues would be more appropriately considered in the context of a base-rate earnings review.
Reporting Requirements

The Commission also agrees with the Hearing Examiner that the reporting requirements recommended by Staff witness Mangalam should be approved.16

In addition, we note that the purpose of the EE/DR programs is to reduce energy usage, either at peak times (demand response and peak shaving) or year-round (energy efficiency). Thus, the true test of any such program is whether, in actual practice, it is the proximate cause of a verifiable reduction in energy usage. This evidence will be, by definition, retrospective in nature. Accordingly, the Commission also directs the Company to file, in every future rate adjustment clause proceeding under Code § 56-585.1 A 5, evidence of the actual energy savings achieved as a result of each specific program for which cost recovery is sought, along with revised cost-benefit tests that incorporate actual Virginia energy savings and cost data. We further direct Staff to investigate each such filing, to analyze the program-specific evidence on actual energy savings and the proximate cause thereof, and to report on its findings. This evidence will be relevant to at least two foreseeable issues: (i) identifying the true cost-effectiveness of programs, which will enable the Commission to determine which programs should be expanded in scope and budget so as to maximize the reductions in energy usage, which ones are least effective and should have their budgets shifted to more effective programs, and which ones are not cost-effective and should be discontinued; and (ii) evaluating any claim by APCo to cost recovery for lost revenues.

Accordingly, IT IS ORDERED THAT:

(1) The Company's Petition is hereby granted as set forth herein.

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16 Report at 8, 9. APCo also confirmed that it has continued to work with Staff to develop the reporting requirements and continues to support them. Ex. 8 (Castle Rebuttal) at 1-2.
(2) The Company shall forthwith file revised tariffs designed to recover a 2019 Rate Year revenue requirement of $5,681,269 with the Clerk of the Commission and with the Commission's Divisions of Public Utility Regulation and Utility Accounting and Finance.

(3) The EE-RAC as approved herein shall become effective for usage on and after July 1, 2019.


(5) In future EE-RAC filings, the Company shall be required to continue to fulfill the reporting requirements agreed to with Staff in the form of a pre-filed exhibit(s). The Company shall continue to work with Staff to prepare such a pre-filed exhibit(s).


(7) In every future rate adjustment clause proceeding under Code § 56-585.1 A 5, APCo shall submit evidence of the actual energy savings achieved by each specific program for which cost recovery is sought.

(8) This matter is continued.

AN ATTESTED COPY hereof shall be sent by the Clerk of the Commission to:
Noelle J. Coates, Esquire, American Electric Power Service Corporation, 3 James Center, 1051 East Cary Street, Suite 1100, Richmond, Virginia 23219; James R. Bacha, Esquire, American Electric Power Service Corporation, 1 Riverside Plaza, Columbus, Ohio 43215; Timothy E. Biller, Esquire, Hunton Andrews Kurth, 951 East Byrd Street, Richmond, Virginia 23219; Robert D. Perrow, Esquire, John L. Walker, III, Esquire, Williams Mullen, P.O. Box 1320, Richmond, Virginia 23218-1320; Edward L. Petrini, Esquire, and
Louis R. Monacell, Esquire, Christian & Barton, LLP, 909 East Main Street, Suite 1200, Richmond, Virginia 23219; C. Meade Browder, Jr., Senior Assistant Attorney General, and Cody T. Murphey, Assistant Attorney General, Office of the Attorney General, Division of Consumer Counsel, 202 N. 9th Street, 8th Floor, Richmond, Virginia 23219-3424. A copy also shall be delivered to the Commission's Office of General Counsel and Divisions of Public Utility Regulation and Utility Accounting and Finance.