part 2

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PART A

Testimony Summary of Patrick W. Carr

My testimony makes the following recommendations for the Commission's consideration:

- A $308.8 million customer credit reinvestment offset ("CCRO") pursuant to Code of Virginia ("Code") § 56-585.1 A 8 and Staff's earnings test results;
- A $312.4 million customer refund pursuant to Code § 56-585.1 A 8 and Staff's earnings test results;
- A $50 million going-forward rate reduction pursuant to Code § 56-585.1 A 8 and Staff's rate year analysis;
- A 25-year amortization period for generation unit impairment costs pursuant to Code § 56-585.1 E; and
- The Company be required to segregate CCRO-related assets and liabilities in subaccounts in its general ledger.

My testimony also addresses the following:

- Staff's environmental justice inquiries in this proceeding.

PREFILED STAFF TESTIMONY
OF
PATRICK W. CARR

VIRGINIA ELECTRIC AND POWER COMPANY

CASE NO. PUR-2021-00058
SEPTEMBER 17, 2021

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OF
PATRICK W. CARR

VIRGINIA ELECTRIC AND POWER COMPANY

CASE NO. PUR-2021-00058
SEPTEMBER 17, 2021

Q. PLEASE STATE YOUR NAME AND THE POSITION YOU HOLD WITH THE STATE CORPORATION COMMISSION ("COMMISSION").

A. My name is Patrick W. Carr, and I am a Deputy Director with the Commission's Division of Utility Accounting and Finance.

Q. PLEASE STATE THE PURPOSE OF YOUR TESTIMONY AND SUMMARIZE YOUR RECOMMENDATIONS.

A. My testimony addresses certain aspects of Virginia Electric and Power Company d/b/a Dominion Energy Virginia's ("Company" or "DEV") triennial review application. Specifically, I recommend:

1) A $308.8 million customer credit reinvestment offset ("CCRO") pursuant to Code § 56-585.1 A 8 ("Section A 8") and Staff's earnings test results;[1]
2) A $312.4 million customer refund pursuant to Section A 8 and Staff's earnings test results;
3) A $50 million going-forward rate reduction pursuant to Section A 8 and Staff's rate year ("Rate Year") analysis;[2]

[1] The earnings test for this proceeding is the four-year period 2017 through 2020.

[2] The Rate Year for this proceeding begins January 1, 2022, and ends December 31, 2022.

4) A 25-year amortization period for generation unit impairment costs pursuant to Code § 56-585.1 E; and

5) The Company be required to segregate CCRO-related assets and liabilities in subaccounts in its general ledger.

I also address Staff's environmental justice inquiries in this proceeding.[3]

Q. PLEASE PROVIDE A BRIEF SUMMARY OF THE COMPANY'S APPLICATION AS IT RELATES TO YOUR TESTIMONY.

A. The Company asserts it earned a 9.61% rate of return on common equity ("ROE") during the triennial review test years 2017 through 2020 ("Triennial Period") after taking into account customer arrearage forgiveness. This is within the statutory earnings range discussed further below. It therefore asserts there are no excess revenues with which to offset CCROs and/or provide customer refunds.

The Code prohibits a going-forward rate increase in this triennial review.[4] A rate decrease of up to $50 million is permitted under certain circumstances, but not if the Company, as it asserts, had Triennial Period earnings within the statutory earnings range. Thus, the Company's application requests no net revenue change going forward.

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[3] In addition, Appendix A to my testimony provides information relevant to public comments received on July 22, 2021 in this proceeding. Appendix B provides information regarding Staff's audit of DEV's use of Coronavirus Relief Funds to forgive certain customer arrearage balances.

[4] The Company nevertheless asserts that its fully-adjusted Rate Year ROE is 9.08%, which is below its requested fair combined ROE of 10.80%.

Q. PLEASE IDENTIFY THE OTHER STAFF WITNESSES IN THIS CASE.

A. In addition to my testimony, Staff presents the pre-filed testimony of the following witnesses:

Daniel M. Long discusses the results of Staff's Triennial Period earnings test analysis and certain accounting adjustments including those related to environmental expenses, storm expenses, and grid transformation benefits and expenses.

Samuel C. Mattox discusses the results of Staff's Rate Year analysis and certain accounting adjustments including those related to revenue, plant and depreciation, uncollectible expense, and demolition and decommissioning expenses.

Richard D. Weatherford discusses certain accounting adjustments related to cash working capital and income taxes.

Anna L. Clayton discusses certain accounting adjustments related to employee compensation expense, intercompany charges, and other power and delivery operations and maintenance expense.

Donna T. Pippert discusses Staff's recommended ROE and selects the statutory peer group floor from Staff witness Gereaux's analysis.

Phillip M. Gereaux discusses Staff's recommended capital structure, cost of debt, and the results of Staff's statutory peer group analysis.

Brian S. Pratt discusses certain aspects of the Company's non-residential rate design and other tariff revisions, the proposed policy and related charges for customers who opt-out of Advanced Metering Infrastructure ("AMI") meter installation, and a revenue adjustment related to Demand Side Management ("DSM") and Energy Efficiency ("EE") programs. Mr. Pratt also presents Staff's rate and typical bill comparisons between the Company and its statutorily-defined peer group.

Glenn A. Watkins discusses cost allocations, the assignment of Staff's recommended $50 million revenue reduction across jurisdictional classes, and residential rate design.

Neil Joshipura discusses DEV's operational performance, the use of AMI meters nationwide, and DEV's AMI meter deployment.

Ruben S. Blevins discusses the Company's proposed changes to its terms and conditions of service, including changes to miscellaneous charges. Mr. Blevins also discusses the Company's proposal to withdrawal certain rate schedules as well as the Company's proposed updates to Rider EDR and Rider D.

<u>Staff's Earnings Test Results and Resulting Recommendations</u>

Q. PLEASE DISCUSS THE ROLE OF THE EARNINGS TEST IN TRIENNIAL REVIEW PROCEEDINGS.

A. Triennial review proceedings require the examination of earned returns for the combined triennial review period. Earnings tests are utilized for this purpose. An earnings test employs test year jurisdictional earnings, a test year average rate base, an end-of-period capital structure, and limited regulatory accounting adjustments. Earnings tests are not used to set rates, but rather to examine the Company's actual results, on a regulatory accounting basis, during an historical period. The present triennial review for DEV combines individual earnings tests for each of the test years 2017 through 2020 to evaluate the Company's actual results, on a regulatory accounting basis, for the Triennial Period.

In Case No. PUR-2019-00050, the Commission approved a combined ROE of 9.20% to be used in DEV's triennial review.[5] Section A 8 provides for a 140-basis point range around that approved ROE (*i.e.*, 70 basis points above and 70 basis points below) for DEV's triennial review proceedings. Section A 8 also identifies certain costs, including asset impairments due to early retirement determinations of certain facilities, severe weather expenses, and expenses related to coal combustion by-product management, among others, as period expenses[6] and, to the extent they reduce the Company's Triennial Period earnings below the bottom of the 140-basis point range, are deferred and recovered over a future period determined by the Commission.

If the Company has earned more than 70 basis points above its approved ROE, Code § 56-585.1 A 8 b directs the Commission to order that 70% of earnings above the top of the range be credited to customers' bills. The Company may offset any overearnings with specific investments in solar, wind, or electric distribution grid transformation projects as identified in Code § 56-585.1 A 8 d (*i.e.*, a CCRO). If the results of the earnings test, after CCROs are applied, indicates a refund is directed, then the Commission may also order a base rate decrease up to a maximum

[5] *Application of Virginia Electric and Power Company, For the determination of the fair rate of return on common equity pursuant to § 56-585.1:1 C of the Code of Virginia,* Case No. PUR-2019-00050, 2019 S.C.C. Ann. Rept. 400, Final Order (Nov. 21, 2019) ("2019 ROE Order").

[6] However, Code § 56-585.1 E, discussed further below, provides the Commission with discretion over the amortization period for costs due to the early retirement of any electric generation facilities.

of $50 million, so long as the resulting rates provide the Company with the opportunity to fully recover its cost of providing service and a fair rate of return.

Q. PLEASE EXPLAIN STAFF'S RECOMMENDATIONS RESULTING FROM ITS EARNINGS TEST RESULTS AND APPLICABLE CODE PROVISIONS.

A. As discussed further by Staff witness Long, Staff's analysis indicates the Company earned a 13.61% ROE during the 2017 through 2020 earnings test period. This is 441 basis points of earnings, or $1.143 billion of revenues, above the applicable fair combined ROE of 9.2%. As compared to the 9.9% top of the statutory range, there are $961.5 million in excess revenues.[7] After 2020 customer arrearage forgiveness of $206.3 million, $755.2 million remains available for CCRO and/or customer refunds.

The Company had $308.8 million of CCRO-eligible investment as of December 31, 2020,[8] the end of the earnings test period. Since this amount is less than the $755.2 million of available revenues, Staff recommends that all of this investment be designated as CCRO.[9] CCRO investment is considered to have been

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[7] As mentioned previously, the Commission established a fair combined ROE of 9.2% in its 2019 ROE Order. Section A 8 provides for a 140-basis point range around that approved ROE for DEV's triennial review proceedings.

[8] Appendix C contains an itemized list of CCRO investment by type and amount. This includes $53.2 million of AMI investment made during the Triennial Period. Staff is not opposed to the CCRO eligibility of AMI investment. Staff witness Joshipura discusses Staff's position regarding the Company's rollout of AMIs.

[9] The Company requests that "[s]hould the Commission determine that there are ... available revenues for earnings sharing, then the Company contingently elects and requests to offset those revenues with additional approved investment levels in the [Coastal Virginia Offshore Wind ("CVOW")] project up to the total amount, and then, if necessary, in the approved electric distribution grid transformation projects, collectively

paid for by customers during the earnings test period and thus cannot be included in any future rate recovery.[10] After applying $308.8 million of excess revenue to CCRO, $446.3 million remains available for customer refunds.[11]

Staff next recommends the Commission direct customer refunds of $312.4 million (*i.e.*, 70% of the remaining available revenues of $446.3 million) as provided for by Section A 8.

The foregoing recommendations are summarized below:

	Amount (in millions)
Excess Revenues Above 9.9% ROE	$961.5
Less: Arrearage Forgiveness	$206.3
Available for CCRO and/or Refund	$755.2
Less: CCRO	$308.8
Remaining	$446.3
Less: Refunds (70% of Remaining)	$312.4
Retained by DEV (30% of Remaining)	$133.9

up to the total [CCRO-eligible] investment level ..., or the total amount of the customers' share of available revenues, whichever is less." *See* Direct Testimony of John C. Ingram at 15-16.

[10] Staff recommends the Company be required to segregate CCRO-related assets and liabilities in subaccounts in its general ledger. This will facilitate Staff's audit of these investment in future proceedings and ensure they are not included in any future rate recovery.

[11] On advice of counsel, the Code provides for CCROs to offset available revenues in an amount equal to 100% of such revenues. The Company appears to take the legal position that only 70% of such revenues needs to be offset by CCRO. *See* Direct Testimony of John C. Ingram at 18. The Company's position results in less CCRO and, thus, a greater amount of investment for customers to pay for through future rates. It also results in a greater amount of excess revenues being retained by DEV and its shareholders in this proceeding.

Staff's Rate Year Results and Resulting Recommendations

Q. PLEASE EXPLAIN STAFF'S RECOMMENDATIONS RESULTING FROM ITS RATE YEAR ANALYSIS AND APPLICABLE CODE PROVISIONS.

A. As discussed further by Staff witness Mattox, Staff's analysis indicates a Rate Year ROE of 11.65%. This is 295 basis points, or $212.4 million on a revenue requirement basis, above the fair combined ROE of 8.7% recommended by Staff witness Pippert.

Since $212.4 million exceeds the statutory maximum of a $50 million rate reduction,[12] Staff recommends a $50 million rate reduction.

These Rate Year results and recommendations are summarized below:

	Amount (in millions)
Rate Year Revenue Sufficiency	$212.4
Rate Reduction	$50.0
Remaining Revenue Sufficiency	$162.4

Amortization Period for Generation Unit Impairments

Q. PLEASE PROVIDE A BRIEF OVERVIEW OF THE COMPANY'S GENERATION UNIT IMPAIRMENTS RECORDED DURING 2019 AND 2020.[13]

[12] Code § 56-585.1 A 8 c.

[13] No generation unit impairments were recorded in 2017 or 2018.

A. In March 2019, DEV announced the planned early retirement of eleven generating units at six generating stations.[14] The net book value of these units, including Construction Work in Progress ("CWIP") and inventory, as of the impairment date was $343.8 million on a total Company basis. The Company recorded a Virginia-jurisdictional impairment charge of $207.9 million, net of tax, as a result.

In March 2020, DEV decided to retire early Chesterfield Units 5 and 6 and Yorktown Unit 3 by May 2023.[15] The net book value of these units, including CWIP and inventory, as of the impairment date was $781.6 million on a total Company Basis. The Company recorded a Virginia-jurisdictional impairment charge of $478.8 million, net of tax, as a result.

In total, the Company recorded Virginia-jurisdictional generation unit impairment charges of $686.7 million during the Triennial Period. The Company identified these impairment charges as period expenses subject to the provisions of Section A 8.

Q. PLEASE DISCUSS THE PROVISIONS OF CODE § 56-585.1 E.

A. Code § 56-585.1 E states as follows:

> E. Notwithstanding any other provision of law, the Commission shall determine the amortization period for recovery of any appropriate costs due to the early retirement of any electric generation facilities owned or operated by any Phase I Utility or Phase II Utility. In making such determination, the Commission shall (i) perform an independent analysis of the remaining undepreciated capital costs; (ii) establish a recovery period that best serves

[14] Prior to the early retirement decision, these units had planned retirement dates ranging from 2022 to 2049, per the Company's most recent depreciation study.

[15] Prior to the early retirement decision, these units had planned retirement dates of 2034, 2039, and 2044, per the Company's most recent depreciation study.

> ratepayers; and (iii) allow for the recovery of any carrying costs that the Commission deems appropriate.

The impairments recorded by the Company and discussed above are "costs due to the early retirement of ... electric generation facilities owned or operated by ... [a] Phase II Utility." Staff has performed an independent analysis of the remaining undepreciated capital costs as required by Code § 56-585.1 E. Staff's analysis verified the amounts of these capital costs as presented in the Company's triennial review application.

Staff recommends the Commission allow recovery of carrying, or financing, costs on unrecovered impairment cost deferrals. To the extent these costs are not recovered until a future point in time but have been incurred in the past, the Company will continue to incur financing costs on this investment equal to its overall weighted cost of capital.

Q. WHAT IS STAFF'S RECOMMENDED RECOVERY, OR AMORTIZATION, PERIOD FOR GENERATION UNIT IMPAIRMENTS IN THIS PROCEEDING PURSUANT TO CODE § 56-585.1 E?

A. Staff recommends an amortization period of 25 years.

Q. PLEASE EXPLAIN WHY STAFF RECOMMENDS 25 YEARS.

A. As noted above, Code § 56-585.1 E specifically directs the Commission to "establish a recovery period that best serves ratepayers." Twenty-five years best serves ratepayers, or customers, because it results in significant, immediate, and known benefits to customers. This includes the full utilization of CCRO-eligible investment as CCROs, refunds, and the maximum-permissible rate reduction of $50 million. Without full utilization of CCROs, there can be no refund. Without a refund, there can be no rate reduction.[16] These benefits are illustrated below:

	Customer Benefit (in millions)
CCRO	$308.8
Refund	$312.4
Cumulative Rate Reduction (2021-2023)	$150.0[17]

Q. PLEASE EXPLAIN THE COMPANY'S PROPOSAL REGARDING THESE GENERATION UNIT IMPAIRMENT COSTS.

A. The Company proposes to treat these costs as fully expensed during the 2017 through 2020 triennial review period. It asserts that period cost treatment is in the best interest of customers and states "[t]he alternative of spreading the costs out into the future requires the customers to bear the expense of recovering those costs, along with any associated prudently incurred financing costs, in those future periods, even though there were prior revenues provided by them sufficient to recover the costs."[18]

[16] Code § 56-585.1 A 8 c.

[17] This is equal to $50 million per year for the three years during which rates set in this proceeding will be in effect until they may be changed in DEV's next triennial review proceeding. If the earnings test results in the next triennial review proceeding prevent going-forward rates from being changed, this customer benefit will continue.

[18] *See* Direct Testimony of John C. Ingram at 12-13.

Q. PLEASE EXPLAIN WHY STAFF'S PROPOSAL BEST SERVES CUSTOMERS, AS REQUIRED BY CODE § 56-585.1 E, AND THE COMPANY'S DOES NOT.

A. This triennial review can have a number of potential outcomes that directly affect customers. These include benefits such as CCROs, refunds, and a rate reduction. Maximizing these benefits best serves customers.

Staff considered several factors in the course of determining the amortization period that best serves customers.[19] These include:

- The amortization period should reduce expense in the current triennial period by an amount sufficient to provide for refunds and, thus, trigger the opportunity to reduce going-forward rates.
- Post-2020 amortization expense should not increase Rate Year expense by an amount such that the Commission cannot find the maximum $50 million rate decrease reasonable.
- The amortization period should not push so much expense into future triennial review proceedings that future outcomes are significantly impacted in a manner detrimental to customers.[20]
- All current considerations should be balanced against future carrying costs (discussed further below) and other uncertainties such as economic or legislative changes.

The following table illustrates the customer impacts of a 25-year amortization period compared to immediate expensing (in millions):[21]

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[19] In addition to best serving customers, a 25-year amortization of 2020 impairments would conclude in 2045, which coincides with the Virginia Clean Economy Act's directive for DEV to reach 100% renewable energy by 2045. Code § 56-585.5 C.

[20] For example, significantly shorter amortization periods would, all else being equal, negatively impact earnings in DEV's next triennial review. This, in turn, could negatively impact the potential for a rate reduction in that proceeding (which is not limited to $50 million).

[21] Both scenarios are presented based on Staff's earnings test adjustments for comparability.

	25-Year Amortization	Immediate Expensing	Net Benefit of 25-Year Amortization
CCRO	$308.8	$0	$308.8
Refund	$312.4	$0	$312.4
Rate Reduction	$150	$0	$150

Staff believes the immediate, tangible benefits of CCROs, refunds, and a rate reduction are in the best interest of customers. These outweigh carrying costs on future rate base recovery, as discussed further below. The Company's proposed immediate expensing, in contrast, deprives customers of the certain benefits discussed above in exchange for minimizing carrying costs, a trade-off that does not best serve customers. Immediately expensing results in no excess revenue with which to provide CCROs or refunds. Without refunds, a going-forward rate reduction is prohibited.

Q. DOES IMMEDIATE EXPENSING MINIMIZE CARRYING COSTS, AS DISCUSSED BY THE COMPANY?

A. Yes, it is always true that paying a cost sooner, rather than later, will minimize carrying costs. However, such carrying costs are just one of many considerations when determining the amortization period that best serves customers. The immediate and certain benefits discussed above are critical benefits to consider as well. In addition, a 25-year amortization approximately matches the recovery period to both (i) the VCEA's directive that DEV achieve 100% renewable energy by 2045 and (ii) the average remaining life of the impaired units had they not been retired early (and thus the time over which customers would have paid for the units). Taken as a whole, Staff believes a 25-year amortization best serves customers for the foregoing reasons and benefits.

Q. PLEASE EXPLAIN STAFF'S ACCOUNTING ADJUSTMENTS TO REFLECT ITS AMORTIZATION RECOMMENDATION.

A. Staff has made earnings test adjustments to eliminate the test year impairment charges and instead include 2019 and 2020 amortization expense resulting from its recommended amortization period. Likewise, Staff has adjusted rate base to include the unamortized portions of the impairment costs (net of associated accumulated deferred income taxes). These adjustments I sponsor are summarized below:[22] [23]

Earnings Test Adjustments	2019 Amount (in millions)	2020 Amount (in millions)	Total Amount (in millions)
ET-15 Eliminate Test Year Impairment Charges from O&M	-$29,685	-$10,957	-$40,642
ET-19 Eliminate Test Year Impairment Charges from Depreciation Expense	-$248,275	-$633,242	-$881,517
ET-20 Include Test Year Amortization Expense of Asset Impairments	$8,340	$30,639	$38,979
ET-47 Include Test Year Unamortized Asset Impairments	$210,647	$756,786	$967,433

[22] Workpapers supporting Staff's adjustments are included in Appendix E. Staff's adjustments begin amortization for the 2019 impairments on April 1, 2019 and the 2020 impairments on April 1, 2020.

[23] Staff witness Weatherford sponsors the related earnings test adjustments to Accumulated Deferred Income Taxes ("ADIT").

Staff similarly made Rate Year adjustments to include a Rate Year level of amortization expense and rate base associated with Staff's amortization recommendation. These adjustments I sponsor are summarized below:[24]

Rate Year Adjustments	Rate Year Amount (in millions)
RM-26 Eliminate Test Year Impairment Charges from O&M	-$10,917
RM-33 Eliminate Test Year Impairment Charges from Depreciation Expense	-$630,935
RM-34 Include Rate Year Amortization Expense of Asset Impairments	$36,946
RM-46 Include Rate Year Unamortized Asset Impairments	$829,244

Environmental Justice

Q. PLEASE DISCUSS STAFF'S INQUIRY REGARDING ENVIRONMENTAL JUSTICE ISSUES IN THIS PROCEEDING.[25]

A. The General Assembly recently addressed environmental justice issues by, among other things, passing House Bill 704 and Senate Bill 406 during its 2020 session.[26] In recognition of the importance of environmental justice and these General

[24] Staff witness Weatherford sponsors the related Rate Year adjustment to ADIT.

[25] For purposes of this testimony, Staff uses the definition of environmental justice found in Code § 2.2-234, "the fair treatment and meaningful involvement of every person, regardless of race, color, national origin, income, faith, or disability, regarding the development, implementation, or enforcement of any environmental law, regulation, or policy." "Environment" is further defined in that section as "the natural, cultural, social, economic, and political assets or components of a community."

[26] 2020 Va. Acts Ch. 1212 and 1257.

Assembly actions, Staff propounded several interrogatories to the Company regarding environmental justice considerations contained in its application and business processes.[27]

The Company asserts that it has adopted an environmental justice policy that, among other things, (i) emphasizes listening to and learning from the communities it serves, (ii) recognizes that environmental justice considerations must be part of the Company's everyday decisions, (iii) commits to advancing purposeful inclusion to ensure a diversity of views in its public engagement processes, and (iv) pledges to be a positive catalyst in its communities. Staff will continue to monitor the Company's implementation of its environmental justice policy in future proceedings.

<u>Conclusions and Recommendations</u>

Q. PLEASE SUMMARIZE THE CONCLUSIONS AND RECOMMENDATIONS INCLUDED IN YOUR TESTIMONY.

A. My testimony includes the following recommendations:

1) A $308.8 million CCRO pursuant to Section A 8 and Staff's earnings test results;
2) A $312.4 million customer refund pursuant to Section A 8 and Staff's earnings test results;
3) A $50 million going-forward rate reduction pursuant to Section A 8 and Staff's Rate Year analysis;

[27] *See* Company's responses to Staff Interrogatory Nos. 35-605 through 610, attached in Appendix D. This includes the full text of the Company's environmental justice policy and related information.

4) A 25-year amortization period for generation unit impairment costs pursuant to Code § 56-585.1 E; and
5) The Company be required to segregate CCRO-related assets and liabilities in subaccounts in its general ledger.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.