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Case Number (if already assigned) PUR-2023-00112

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COMMONWEALTH of VIRGINIA
Office of the Attorney General

Jason S. Miyares
Attorney General

202 N. Ninth Street
Richmond, Virginia 23219
804-786-2071
FAX 804-786-1991
Virginia Relay Services
800-828-1120
7-1-1

August 9, 2023

BY ELECTRONIC FILING

Mr. Bernard Logan, Clerk
c/o Document Control Center
State Corporation Commission
P.O. Box 2118
Richmond, Virginia 23218

RE: ***Application of Virginia Electric and Power Company, To revise its fuel factor pursuant to Va. Code § 56-249.6***
Case No. PUR-2023-00067

Petition of Virginia Electric and Power Company, For a financing order authorizing the issuance of deferred fuel cost bonds pursuant to Va. Code § 56-249.6:1
Case No. PUR-2023-00112

Dear Mr. Logan:

Please find attached for filing in the above-referenced matters the Direct Testimony of Ralph C. Smith, C.P.A. on behalf of the Office of Attorney General, Division of Consumer Counsel.

Thank you for your assistance in this matter.

Yours truly,

/s/ C. Meade Browder Jr.

C. Meade Browder Jr.
Senior Assistant Attorney General

Attachment

cc: Service List

CERTIFICATE OF SERVICE

I hereby certify that a true copy of the foregoing was served on August 9, 2023, by electronic service to:

William H. Chambliss, Esq.
Arlen Bolstad, Esq.
Frederick D. Ochsenhirt, Esq.
K. Beth Clowers, Esq.
Office of General Counsel
State Corporation Commission
P.O. Box 1197
Richmond, VA 23218
William.Chambliss@scc.virginia.gov
Arlen.Bolstad@scc.virginia.gov
Frederick.Ochsenhirt@scc.virginia.gov
Beth.Clowers@scc.virginia.gov

Paul E. Pfeffer, Esq.
Lisa R. Crabtree, Esq.
Dominion Energy Services, Inc.
120 Tredegar Street
Richmond, VA 23219
paul.e.pfeffer@dominionenergy.com
lisa.r.crabtree@dominionenergy.com

Joseph K. Reid, III, Esq.
Elaine S. Ryan, Esq.
Jontille D. Ray, Esq.
Nicole M. Allaband, Esq.
McGuireWoods LLP
Gateway Plaza
800 E. Canal Street
Richmond, VA 23219-3916
jreid@mcguirewoods.com
eryan@mcguirewoods.com
jray@mcguirewoods.com
nallaband@mcguirewoods.com

William T. Reisinger, Esquire
ReisingerGooch PLC
1108 East Main Street, Suite 1102
Richmond, Virginia 23219
will@reisingergooch.com

S. Perry Coburn, Esq.
Timothy G. McCormick, Esq.
Christian F. Tucker, Esq.
Christian & Barton, L.L.P.
901 East Cary Street, Suite 1800
Richmond, VA 23219-4037
pcoburn@cblaw.com
tmccormick@cblaw.com
ctucker@cblaw.com

E. Grayson Holmes, Esq.
William C. Cleveland, Esq.
Nate Benforado, Esq.
Josephus Allmond, Esq.
Rachel James, Esq.
Southern Environmental Law Center
120 Garrett Street, Suite 400
Charlottesville, VA 22902
gholmes@selcva.org
wcleveland@selcva.org
nbenforado@selcva.org
jallmond@selcva.org
rjames@selcva.org

Cliona Mary Robb, Esq.
Michael J. Quinan, Esq.
Rachel W. Adams, Esq.
Sean Breit-Rupe, Esq.
ThompsonMcMullan, P.C.
100 Shockoe Slip, 3rd Floor
Richmond, VA 23219
crobb@t-mlaw.com
mquinan@t-mlaw.com
radams@t-mlaw.com
sbreit-rupe@t-mlaw.com

Eric M. Page, Esq.
Cody T. Murphey, Esq.
Eckert Seamans Cherin & Mellott, LLC
919 East Main Street, Suite 1300
Richmond, VA 23219
epage@eckertseamans.com
cmurphey@eckertseamans.com

Eric J. Wallace, Esq.
Eric W. Hurlocker, Esq.
Claire M. Gardner, Esq.
GreeneHurlocker, PLC
4908 Monument Avenue, Suite 200
Richmond, VA 23230
EWallace@GreeneHurlocker.com
EHurlocker@GreeneHurlocker.com
CGardner@GreeneHurlocker.com

Brian R. Greene, Esq.
Victoria L. Howell, Esq.
Steven Skaist, Esq.
GreeneHurlocker, PLC
4908 Monument Avenue, Suite 200
Richmond, VA 23230
BGreene@greenehurlocker.com
VHowell@greenehurlocker.com
SSkaist@greenehurlocker.com

/s/ C. Meade Browder Jr.
Counsel

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

APPLICATION OF **VIRGINIA ELECTRIC AND POWER COMPANY** **To revise its fuel factor pursuant to Va. Code § 56-249.6**	)	**Case No. PUR-2023-00067**
PETITION OF **VIRGINIA ELECTRIC AND POWER COMPANY** **For a financing order authorizing the issuance of deferred fuel cost bonds pursuant to Va. Code § 56-249.6:1**	)	**Case No. PUR-2023-00112**

DIRECT TESTIMONY

OF

RALPH C. SMITH, C.P.A.

ON BEHALF OF THE OFFICE OF THE ATTORNEY GENERAL DIVISION OF CONSUMER COUNSEL

August 9, 2023

DIRECT TESTIMONY SUMMARY
RALPH C. SMITH, C.P.A.

Mr. Ralph Smith is senior regulatory consultant in the firm Larkin & Associates, PLLC.

Mr. Smith's Direct Testimony recognizes that under the right circumstances, securitization can result in benefits to a public utility and its ratepayers by mitigating rate impacts and reducing financing costs related to the recovery of prudently incurred costs. However, there are a number of concerns identified with respect to Dominion's specific securitization proposal, including, but not limited to:

- A low estimated Net Present Value (NPV) margin of only 1 or 2%
- The potential for significantly increased total cost to Dominion's captive ratepayers
- A substantially increased securitization financing cost rate for the second and third year deferrals of the June 30, 2022 balance for which financing costs have already been subject to mitigation
- Use of securitization financing cost rates that are higher than Dominion's reported cost of debt

Consideration should also take into account the Virginia regulatory framework where, in the absence of securitization, financing costs for Dominion's deferred fuel costs are addressed in the evaluation of the Company's base rate revenue requirement. The current Virginia statutory framework, as applied to Dominion's circumstances in the pending biennial review case, appears to protect the Company's customers from an increase in base rates in 2024 or 2025. With securitization, however, Dominion's ratepayers, would incur securitization surcharges that include all costs included in securitization, including costs for deferred fuel recovery, securitization financing costs, and costs related to issuing and administering the securitization bonds. The additional revenue requirement burden on Dominion's ratepayers that could result from securitization is therefore one of the key factors that needs to be considered in evaluating whether Dominion's proposed securitization is likely to be beneficial or harmful to Dominion's ratepayers.

VIRGINIA ELECTRIC AND POWER COMPANY
CASE NOS. PUR-2023-00067 and PUR-2023-00112

DIRECT TESTIMONY
OF
RALPH C. SMITH, C.P.A.

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Appendix

Appendix RCS-1, Qualifications of Ralph C. Smith

VIRGINIA ELECTRIC AND POWER COMPANY
CASE NOS. PUR-2023-00067 and PUR-2023-00112

DIRECT TESTIMONY
OF
RALPH C. SMITH, C.P.A.

I. INTRODUCTION

Q. WHAT IS YOUR NAME, OCCUPATION AND BUSINESS ADDRESS?

A. My name is Ralph C. Smith. I am a Certified Public Accountant licensed in the State of Michigan and a senior regulatory consultant in the firm Larkin & Associates, PLLC, Certified Public Accountants, with offices at 15728 Farmington Road, Livonia, Michigan 48154.

Q. PLEASE DESCRIBE THE FIRM LARKIN & ASSOCIATES, PLLC.

A. Larkin & Associates, PLLC, is a Certified Public Accounting and Regulatory Consulting Firm. The firm performs independent regulatory consulting primarily for public service/utility commission staffs and consumer interest groups (public counsels, public advocates, consumer counsels, attorneys general, etc.). Larkin & Associates, PLLC has extensive experience in the utility regulatory field providing expert witness testimony in over 600 regulatory proceedings, including numerous gas, electric, water and wastewater, and telephone utility cases.

Q. MR. SMITH, PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND RECENT WORK EXPERIENCE.

A. I received a Bachelor of Science degree in Business Administration (Accounting Major) with distinction from the University of Michigan – Dearborn, in April 1979. I passed all parts of the C.P.A. examination on my first sitting in 1979, received my C.P.A. license in 1981, and received a certified financial planning certificate in 1983. I also have a Master of Science in Taxation from Walsh College, 1981, and a law degree (J.D.) cum laude from Wayne State University, 1986. In addition, I have attended a variety of continuing education courses in conjunction with maintaining my accountancy license. I am a licensed Certified Public Accountant and attorney in the State of Michigan. Since 1981, I have been a member of the Michigan Association of Certified Public Accountants. I am also a member of the Michigan Bar Association. I have also been a member of the American Bar Association (ABA), and the ABA sections on Public Utility Law and Taxation.

Q. PLEASE SUMMARIZE YOUR PROFESSIONAL EXPERIENCE.

A. Subsequent to graduation from the University of Michigan, and after a short period of installing a computerized accounting system for a Southfield, Michigan realty management firm, I accepted a position as an auditor with the predecessor CPA firm to Larkin & Associates in July 1979. Before becoming involved in utility regulation where the majority of my time for the past 43 years has been spent, I performed audit, accounting, and tax work for a wide variety of businesses that were clients of the firm.

During my service in the regulatory section of our firm, I have been involved in rate cases and other regulatory matters concerning numerous electric, gas, telephone, water, and sewer utility companies. My present work consists primarily of analyzing rate case and regulatory filings of public utility companies before various regulatory commissions, and, where appropriate, preparing testimony and schedules relating to the issues for presentation before these regulatory agencies.

I have performed work in the field of utility regulation on behalf of industry, state attorneys general, consumer groups, municipalities, and public service commission staffs concerning regulatory matters before regulatory agencies in Alabama, Alaska, Arizona, Arkansas, Barbados, California, Connecticut, Delaware, Florida, Georgia, Hawaii, Illinois, Indiana, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Montana, New Jersey, New Mexico, New York, Nevada, North Carolina, North Dakota, Ohio, Oregon, Pennsylvania, Puerto Rico, Rhode Island, South Carolina, South Dakota, Tennessee, Texas, Utah, Vermont, Virginia, Washington, Washington, D.C., West Virginia, and Canada as well as the Federal Energy Regulatory Commission and various state and federal courts of law.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE VIRGINIA STATE CORPORATION COMMISSION ("COMMISSION")?

A. Yes. I testified before the Commission in Case Nos. PUE-2006-00065, PUE-2008-00046, PUE-2011-00037, PUE-2014-00026, PUR-2020-00015, and PUR-2023-00002 involving the earnings reviews and/or rate requests of Appalachian Power Company; and in the biennial and triennial review base rate cases for Virginia Electric and Power Company, Case Nos. PUE-2009-00019, PUE-2013-00020, PUE-2015-00027, and PUR-2021-00058. I submitted testimony in Case No. PUR-2020-00169 for approval of Virginia Electric and Power Company's Rider RGGI. I submitted testimony in the Virginia Natural Gas rate case, Case No. PUR-2022-00052. I also testified before the Commission in the Columbia Gas of Virginia rate case, Case No. PUR-2018-00131, and in rate cases for Virginia-American Water

Company, Case Nos. PUE-2008-00009, PUE-2015-00097, PUR-2018-00175, and PUR-2021-00255;

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE OTHER STATE REGULATORY COMMISSIONS?

A. Yes. I have previously submitted testimony before several other state regulatory commissions.

Q. HAVE YOU PREPARED AN APPENDIX DESCRIBING YOUR QUALIFICATIONS AND EXPERIENCE?

A. Yes. I have attached Appendix RCS-1, which is a summary of my regulatory experience and qualifications.

Q. ON WHOSE BEHALF ARE YOU APPEARING?

A. Larkin & Associates, PLLC, was retained by the Virginia Office of the Attorney General, Division of Consumer Counsel ("Consumer Counsel") to review the application to revise the fuel factor of Virginia Electric and Power Company d/b/a/ Dominion Energy Virginia ("Dominion" or "Company"), and to review Dominion's petition for a financing order to securitize certain deferred fuel costs and to issue deferred fuel cost bonds. Accordingly, I am appearing on behalf of Consumer Counsel.

Q. ARE ANY ADDITIONAL WITNESSES APPEARING ON BEHALF OF CONSUMER COUNSEL IN THIS CASE?

A. No.

Q. HOW IS YOUR TESTIMONY ORGANIZED?

A. In Section II, I discuss Dominion's deferred fuel costs through June 30, 2023 and the carrying cost rates related to those deferred fuel costs. In Section III, I discuss the currently established mechanisms and ratemaking regime in Virginia that is applicable to Dominion's recovery of fuel costs and carrying costs on the deferred fuel balance. Finally, in Section IV, I discuss a number of concerns about Dominion's proposal to finance the deferred cost recovery with securitization debt, which warrant approaching Dominion's proposal for securitization with caution in order to avoid burdening Dominion's Virginia ratepayers with several hundred million dollars of additional costs.

Q. ARE ANY EXHIBITS BEING SUBMITTED WITH YOUR TESTIMONY?

A. No.

II. DEFERRED FUEL COST BALANCE

Q. WHAT DEFERRED FUEL COST BALANCE DOES DOMINION SHOW FOR JUNE 30, 2023?

A. Dominion shows a deferred fuel cost balance at June 30, 2023 of approximately $1.275 billion, consisting of the following:[1]

Table 1. Deferred Fuel Balances

Deferred Fuel Balances at June 30, 2023			
2nd Yr '21/22 Mitigation		$	288,795,551
3rd Yr '21/22 Mitigation		$	288,795,551
2022/23 Deferral		$	697,426,391
Total Fuel Deferral		$	1,275,017,493
Source: Reed Exhibit JJR-1, Excel file			
tab: "Deferral Balance by Traunch r2" cells F10:F13			

[1] See, Exhibit JJR-1 from Case No. PUR-2023-00112.

The two balances of approximately $288.8 million relate to deferred fuel costs that Dominion had accumulated through June 30, 2022, which were addressed in the Commission's Order Establishing 2022-2023 Fuel Factor, in Case No. PUR-2022-00064, dated September 16, 2022.[2] A reduced carrying cost rate is being applied to those balances, as discussed in that Order.

The balance of approximately $697.4 million represents Dominion's estimated fuel cost deferral that occurred during the period July 1, 2022 through June 30, 2023.

Q. WHAT CARRYING COST RATES ARE BEING APPLIED TO EACH COMPONENT?

A. For the second and third year mitigation amounts, Dominion is applying a carrying cost rate of 3.28%, based on 50% of Dominion's after tax weighted average cost of capital (i.e., "after-tax WACC") of 6.55%.

For the $697.4 million that represents Dominion's estimated fuel cost deferral that occurred during the period July 1, 2022 through June 30, 2023, Dominion is applying a carrying cost rate consisting of the after-tax WACC of 6.55%.

Dominion is applying the carrying cost rates on a monthly basis, by dividing the 3.28% and 6.55% by 12, and multiplying the result by the deferred fuel cost component.

[2] *Application of Virginia Electric and Power Company, To revise its fuel factor pursuant to Va. Code § 56-249.6*, Case No. PUR-2022-00064.

Q. HOW MUCH CARRYING COST DOES DOMINION SHOW FOR THE MONTH OF JULY 2023, USING THOSE RATES, AND APPLIED TO THOSE DEFERRED FUEL BALANCES?

A. The information contained in the Dominion Excel file supporting Exhibit JRR-1 from Case No. PUR-2023-00112 on the tab "Deferral Balance by Traunch r2" cells F62:F65 shows $5,313,933 in carrying costs for July 2023, based on the following deferred fuel balances and carrying cost rates:

Table 2. Carrying Cost Calculation Illustration

Illustration of Dominion's Carrying Cost Caculation: Month of July 2023	Deferred Fuel Balances at June 30, 2023	After Tax WACC	Carrying Cost Rate Applied by Dominion	Monthly Carrying Costs July 2023
	(A)	(B)	(C)	(D)
2nd Yr '21/22 Mitigation	$ 288,795,551	6.55%	3.28%	$ 778,040
3rd Yr '21/22 Mitigation	$ 288,795,551	6.55%	3.28%	$ 778,040
2022/23 Deferral	$ 697,426,391	6.55%	6.55%	$ 3,757,853
Total Fuel Deferral	$ 1,275,017,493			$ 5,313,933

Q. HOW MUCH CARRYING COSTS DOES DOMINION SHOW FOR EACH YEAR, 2023, 2024 AND 2025?

A. Dominion shows carrying costs for July-December 2023 of approximately $31.9 million, carrying costs for 2024 of approximately $36.7 million and carrying cost of approximately $4.7 million for the period January through June 2025, for a total carrying cost amount of approximately $73.2 million, as summarized in the following table:[3]

[3] Id.

Table 3. Dominion's Calculated Carrying Costs

Dominion's Calculated Carrying Costs "If Securitization Is Denied"				
Period	2nd Yr '21/22 Mitigation	3rd Yr '21/22 Mitigation	2022/23 Deferral	Total
July-Dec 2023	$ 4,668,240	$ 4,668,240	$ 22,547,118	$ 31,883,598
Jan-Dec 2024	$ 4,864,690	$ 8,297,103	$ 23,495,954	$ 36,657,747
Jan-June 2025	$ 570,303	$ 1,337,577	$ 2,754,506	$ 4,662,386
Totals	$ 10,103,233	$ 14,302,921	$ 48,797,578	$ 73,203,732
Source: Reed Exhibit JJR-1, Excel file				
tab: "Deferral Balance by Traunch r2" accumulated from cells F62:AC65				

III. FUEL COST AND CARRYING COST RECOVERY MECHANISMS

Q. UNDER WHAT MECHANISM DOES DOMINION RECOVER FUEL COSTS?

A. Dominion recovers its prudently incurred fuel and purchased power costs through its Fuel Factor, pursuant to Va. Code § 56-249.6.

Q. UNDER WHAT MECHANISM DOES DOMINION RECOVER CARRYING COSTS ON ITS DEFERRED FUEL BALANCE?

A. Carrying costs on a deferred fuel balance are recovered through base rates as a component of rate base.

Q. WHAT IS DOMINION'S CURRENT POSITION CONCERNING BASE RATE INCREASES IN 2024 OR 2025?

A. In its pending biennial review rate proceeding, Case No. PUR-2023-00101, Dominion indicates its base rates will not be increased in 2024 or 2025. under the current Virginia statutory framework. Referring to its Filing Schedule 21 in Case No. PUR-2023-00101, Company witness McLeod states that:

> This analysis demonstrates a revenue deficiency of $26 million and $51 million for the 2024 Rate Year and 2025 Rate Year, respectively. However, while the going forward analysis

> demonstrates a revenue deficiency in each rate year, such increases are not permitted under the Act, which provides that the combination of $350 million of rider revenue requirements into base rates cannot serve as the basis for a rate increase in this review proceeding; therefore, the Company is proposing no incremental increase in base rates in this proceeding.[4]

Q. HOW DOES THAT APPEAR TO AFFECT ANY BASE RATE CHANGE TREATMENT RELATING TO THE CARRYING COSTS THAT DOMINION HAS CALCULATED FOR THE PERIOD THROUGH JUNE 2025?

A. It appears, based on the above, that Dominion's base rates would not be increased for the recovery from its ratepayers of the approximately $73.2 million of carrying costs that the Company has calculated for the period July 2023 through June 2025 under the scenario where deferred fuel cost bonds are not used.

Q. IF SECURITIZATION WERE TO BE APPROVED, WOULD DOMINION'S RATEPAYERS BE CHARGED ALL CARRYING COSTS AND ALL ADDITIONAL COSTS ASSOCIATED WITH THE ISSUANCE AND MAINTENANCE OF THE SECURITIZATION BONDS?

A. Yes. With securitization, Dominion's ratepayers would be responsible for not only the deferred fuel costs but also for all carrying costs and all additional costs associated with the issuance and maintenance of the securitization bonds. If the bond issuance is permitted, the securitization bonds and the related revenue requirement would be charged to Dominion's ratepayers through a new surcharge

[4] *Application of Virginia Electric and Power Company, For a 2023 biennial review of the rate, terms, and conditions for the provision of generation, distribution and transmission services pursuant to § 56-585.1 A of the Code of Virginia*, Case No. PUR-2023-00101, Direct Testimony of Paul M. McLeod at 23 (July 3, 2023) (emphasis supplied).

that would include not only the approximately $1.275 billion of deferred fuel costs but also for all carrying costs and all additional costs associated with the issuance and maintenance of the securitization bonds.

Q. HOW MUCH DOES DOMINION SHOW FOR THE TOTAL REVENUE REQUIREMENT, TO BE CHARGED TO ITS RATEPAYERS UNDER SECURITIZATION?

A. Dominion estimates a total revenue requirement for securitization of approximately $1.544 billion under the 7-year securitization debt and approximately $1.658 billion under the 10-year securitization debt.

IV. CONCERNS REGARDING DOMINION'S PROPOSED SECURITIZATION

General Benefits or Potential For Ratepayer Harm from Securitization

Q. CAN SECURITIZATION RESULT IN BENEFITS TO A REGULATED PUBLIC UTILTY AND ITS RATEPAYERS UNDER CERTAIN CIRCUMSTANCES?

A. Yes. In general, in the right circumstances, securitization can result in benefits to a public utility and its ratepayers by mitigating rate impacts and reducing financing costs related to the recovery of prudently incurred costs.

Q. HOW DOES SECURITZATION BENEFIT A UTILITY SUCH AS DOMINION?

A. Securitization can benefit a utility by providing for assured recovery of costs and in getting deferred balances monetized more quickly in comparison with traditional regulatory recovery methods. The utility receives a large cash infusion, which it can then reinvest. The responsibility for financing costs and all of the related costs related to the securitization becomes the responsibility of the utility's captive ratepayers.

Q. HOW CAN SECURITIZATION BENEFIT RATEPAYERS?

A. In the right circumstances, securitization can result in a reduced overall revenue requirement due to lower financing costs, as well as mitigation of rate impacts related to utility cost recovery.

Q. CAN SECURITIZATION HARM RATEPAYERS?

A. Yes. If not done properly, or if done without adequate consideration of all impacts on the affected utility ratepayers, securitization can result in substantially higher revenue requirements and increased financing costs, as well as shifting onto ratepayers costs that would not otherwise be directly recoverable from ratepayers under a particular regulatory framework. Dominion's securitization proposal appears to contain elements of each of these forms of potential ratepayer harm, and thus deserves very careful regulatory scrutiny.

Q. ONCE SECURITIZATION BONDS ARE APPROVED AND ISSUED, CAN THAT BE EASILY UNDONE IF CIRCUMSTANCES DEMONSTRATE THAT IT WAS UNECONOMICAL?

A. No. Once the securitization bonds are approved and issued, the responsibility for Dominion's captive ratepayers to pay the resultant revenue requirement will have been locked in. Trying to undo a securitization transaction at a later point could be extremely difficult and costly. Thus, it is important to have a high degree of confidence in advance of approving a securitization that the securitization will produce substantial benefits to the utility's captive ratepayers. Without a substantial amount of clear benefits and a high level of confidence that such benefits will materialize, tying a utility's captive ratepayers to a new long-term obligation should not be undertaken.

<u>Low Estimated Net Present Value Margin</u>

Q. WHAT NET PRESENT VALUE ("NPV") DOES DOMINION CLAIM WOULD RESULT FROM ITS 7-YEAR AND 10-YEAR SECURITIZATION PROPOSALS?

A. Using amounts from Company Exhibit JRR-1 in Case No. PUR-2023-00112, as shown below, Dominion calculates a NPV benefit of approximately $10 million for its proposed 7-year securitization, which is only a 1% difference from Dominion's calculation of the NPV for traditional cost recovery:

Table 4. Dominion's NBV – Seven Year Securitization

NPV (Millions of Dollars)	Amount
Securitization NPV	$ 1,191.62
Traditional Fuel Cost Mechanism NPV	$ 1,201.79
Benefit (detriment) of Securitization	$ 10.16
Benefit as a Percent of Traditional Cost	1%

Also using amounts from Company Exhibit JRR-1 in Case No. PUR-2023-00112, as shown below, Dominion calculates a NPV benefit of approximately $29 million for its proposed 10-year securitization, which is only a 2% difference from Dominion's calculation of the NPV for traditional cost recovery:

Table 5. Dominion's NBV – Ten Year Securitization

NPV (Millions of Dollars)	Amount
Securitization NPV	$ 1,172.63
Traditional Fuel Cost Mechanism NPV	$ 1,201.79
Benefit (detriment) of Securitization	$ 29.15
Benefit as a Percent of Traditional Cost NPV	2%

Q. **DOES A CALCULATED NET PRESENT VALUE BENEFIT OF ONLY 1% OR 2% APPEAR TO BE SUFFICIENTLY COMPELLING TO LOCK DOMINION'S RATEPAYERS INTO SECURITIZATION REVENUE REQUIREMENT OBLIGATIONS THAT COULD BE AS MUCH AS $1.658 BILLION OVER THE NEXT TEN YEARS?**

A. No. Particularly after taking into consideration the other factors described in my testimony, NPV benefit results that slim do not appear to justify approving a securitization that could require Dominion's captive ratepayers to pay securitization revenue requirement obligations that could reach $1.658 billion over the next ten years.

Potential for Significantly Increased Cost to Ratepayers

Q. **HOW WOULD DOMINION'S SECURITIZATION PROPOSAL RESULT IN SUBSTANTIALLY HIGHER REVENUE REQUIREMENTS TO DOMINION'S RATEPAYERS?**

A. Under Dominion's proposed 7-year securitization proposal, the overall revenue requirement calculated by Dominion is projected to increase the cost to Dominion's ratepayers by approximately $256 million or 20%.

Table 6. Additional Revenue Requirement 7-Year Securtization

Revenue Requirement (Millions of Dollars)	Amount	Percent Increase
Securitization 7-Year	$ 1,544.38	
Traditional Fuel Cost Mechanism Recovery	$ 1,288.53	
Additional cost for securitization	$ 255.86	20%

Under Dominion's proposed 10-year securitization proposal, the overall revenue requirement calculated by Dominion is projected to increase the cost to Dominion's captive ratepayers by approximately $369 million or 29%:

Table 7. Additional Revenue Requirement 10-Year Securtization

Revenue Requirement (Millions of Dollars)	Amount	Percent Increase
Securitization 10-Year	$ 1,657.51	
Traditional Fuel Cost Mechanism Recovery	$ 1,288.53	
Additional cost for securitization	$ 368.98	29%

Q. **DO THOSE AMOUNTS OF INCREASED REVENUE REQUIREMENT UNDER THE "TRADITIONAL FUEL COST MECHANISM RECOVERY" BREAK OUT THAT $1.289 BILLION AMOUNT INTO FUEL COSTS AND CARRYING COSTS?**

A. No. As noted above, Dominion has identified approximately $1.275 billion in deferred fuel costs as of June 30, 2023. Dominion has also identified an "opt out" amount of approximately $17.2 million, for a net fuel cost amount of approximately $1.258 billion of deferred fuel costs net of the opt out:

Table 8. Deferred Fuel Costs Net of Opt-Out

$M:		
Deferred Fuel Costs	$	1,275.0
Opt-out	$	17.2
Deferred Fuel Costs (net of Opt-out)	$	1,257.8

Assuming that Dominion could recover the deferred fuel costs through its Fuel Factor but would not increase its base rates in 2024 or 2025 for amounts of carrying cost recovery, the difference between Dominion's projected Revenue Requirement amounts under securitization and the impact on Dominion's ratepayers from traditional recovery would be even larger than the amounts shown above. As noted earlier in my testimony, under the current Virginia regulatory framework applicable to Dominion, it appears the Company will not be raising its base rates in 2024 or 2025. Thus, it is important to consider how that will affect ratepayer impacts for carrying costs on Dominion's fuel deferrals.

<u>Substantially Increased Financing Cost Rate for Second and Third Year Deferrals of the June 30, 2022 Balance for which Financing Costs Have Already Been Subject to Mitigation</u>

Q. HOW COULD DOMINION'S PROPOSED SECURITIZATION RESULT IN INCREASED FINANCING COSTS THAT WOULD BE BORNE BY DOMINION'S RATEPAYERS?

A. Dominion estimates an overall financing cost rate of 4.92% associated with a 7-year securitization and a financing cost rate of 4.93% associated with a 10-year securitization. In comparison with the financing cost rate that is being applied to the second and third year mitigation amounts of deferred fuel costs, Dominion's securitization financing rates are 164 basis points and 166 basis points higher, or correspondingly about 50% higher than the financing cost rate that is being applied to the second and third year amounts related to Dominion's June 30, 2022 deferred fuel cost balances. As shown in the following table, Dominion's proposed financing cost rates under those securitization proposals result in a financing cost rate that is about 1.5 times (i.e., about 50% higher proportionately) than one-half of the after-tax WACC rate that is being applied on the second and third year amounts of Dominion's June 30, 2022 deferred fuel cost balance:

Table 9. Increased Securitization Financing Cost Rate vs Mitigated Rate Being Applied to Second and Third Year

Increase in Financing Cost Rate Applicable to Second and Third Year Mitigation	Financing Cost Rate	Increase Over 50% After-Tax WACC	Proportional Increase
Securitization Debt Cost (7yr)	4.92%	1.64%	50%
Securitization Debt Cost (10yr)	4.93%	1.66%	51%
Financing Cost Rate Applicable to Second and Third Year Mitigaton:			
50% of After-Tax WACC	3.28%		

Q. IF ONE HAD A HOME EQUITY LOAN OR MORTGAGE AT A 3.28% FINANCING COST RATE, AND WERE UNDER NO COMPELLING NEED TO REFINANCE, WOULD YOU REFINANCE AT A RATE OF 4.92% OR 4.93% WHICH IS ABOUT 50 PERCENT HIGHER?

A. Probably not. Unless there were a compelling reason to extend out the payments, keeping the much lower financing cost rate of 3.28% intact for the remaining duration would seem to be preferable for the costs that were being financed at that rate.

Q. DOES IT APPEAR THAT A MUCH HIGHER FINANCING COST RATE WOULD BE APPLIED UNDER DOMINION'S SECURITIZATION

PROPOSAL TO THE REMAINING AMOUNTS OF DOMINION'S JUNE 30, 2022 FUEL DEFERRALS?

A. Yes. As shown above, the financing cost rate projected by Dominion for the securitization alternative is almost 1.5 times, or 50 percent higher, than the mitigated cost rate that is applicable to the remaining June 30, 2022 deferred fuel balances in the second and third year mitigation of approximately $288.8 million and $288.8 million, respectively. Keeping the financing rate applicable to those balances at the mitigated level – i.e., at a financing cost rate that is significantly below what Dominion proposes for such balances under the Company's securitization proposal – would appear to be substantially better overall for Dominion's captive ratepayers.

<u>Comparison of Dominion's Proposed Securitization Financing Cost Rates with Dominion's Reported Cost of Debt</u>

Q. **IN ITS PRESENTATION OF ITS WEIGHTED AVERAGE COST OF CAPITAL, DOES DOMINION PRESENT ITS EMBEDDED COST RATES FOR SHORT- AND LONG-TERM DEBT?**

A. Yes. Dominion's presentation of its WACC includes line items showing Dominion's cost rates for short- and long-term debt, as follows:

Long-Term Debt: 4.124%

Short-Term Debt: 4.059%

Q. **HOW DO THE COST RATES THAT DOMINION PROPOSES FOR ITS SECURITIZATION COMPARE?**

A. Dominion's proposed 7-year and 10-year securitization financing cost rates of 4.92% and 4.93% are higher than Dominion's reported cost of short- and long-term debt, which are listed above.

Q. COULD THERE BE MERIT IN DEVELOPING AN ALTERNATIVE WHEREIN THE FINANCING COST RATE APPLIED TO THE APPROXIMATELY $697 MILLION OF DEFERRED COSTS FROM THE PERIOD JULY 2022 THROUGH JUNE 2023 WERE EITHER AT DOMINION'S COST OF DEBT OR AT A MITIGATED COST RATE, SUCH AS THE 50% OF THE AFTER-TAX WACC THAT WAS APPLIED TO DOMINION'S JUNE 30, 2022 DEFERRED FUEL BALANCES?

A. Yes. There could be significant merit in developing an alternative wherein the financing cost rate applied to the approximately $697 million of deferred costs from the period July 2022 through June 2023 were either at Dominion's cost of debt or at a mitigated cost rate, such as the 50% of the after-tax WACC that was applied to Dominion's June 30, 2022 deferred fuel balances.

Q. DID THE HEARING EXAMINER'S REPORT IN CASE NO. PUR-2022-00064 INDICATE THAT A DEBT-BASED RETURN COULD BE CONSIDERED?

A. Yes. The Hearing Examiner's Report in that case presented a possible alternative in the form of limiting carrying charges on fuel deferral balances subject to mitigation based on the Company's weighted cost of debt. The Report explained that using the Company's weighted cost of debt in this way would prevent the

Company from earning a profit on fuel deferral balances but would permit the recovery of interest charges associated with financing the fuel deferral balances.[5]

Q. WHAT IS YOUR RECOMMENDATION CONCERNING DOMINION'S SECURITIZATION PROPOSAL?

A. I recommend that Dominion's securitization proposal be very carefully evaluated by the Commission, taking into consideration all of the factors identified in my testimony. Extreme caution and due diligence should be exercised in evaluating the options for Dominion's deferred fuel cost recovery. Alternatives for fuel cost recovery and for applying financing costs to that fuel cost recovery that could be a substantial improvement to Dominion's securitization proposal should be carefully considered.

Q. DOES THIS COMPLETE YOUR PREFILED DIRECT TESTIMONY?

A. Yes, it does.

[5] *Application of Virginia Electric and Power Company, To revise its fuel factor pursuant to Va. Code § 56-249.6*, Case No. PUR-2022-00064, Report of Alexander F. Skirpan, Chief Hearing Examiner, at 34 (Aug. 11, 2022).

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QUALIFICATIONS OF RALPH C. SMITH

Accomplishments

Mr. Smith's professional credentials include being a Certified Financial Planner™ professional, a Certified Rate of Return Analyst, a licensed Certified Public Accountant and attorney. He functions as project manager on consulting projects involving utility regulation, regulatory policy and ratemaking and utility management. His involvement in public utility regulation has included project management and in-depth analyses of numerous issues involving telephone, electric, gas, and water and sewer utilities.

Mr. Smith has performed work in the field of utility regulation on behalf of industry, public service commission staffs, state attorney generals, municipalities, and consumer groups concerning regulatory matters before regulatory agencies in Alabama, Alaska, Arizona, Arkansas, Barbados, California, Connecticut, Delaware, Florida, Georgia, Hawaii, Illinois, Indiana, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Montana, New Jersey, New Mexico, New York, Nevada, North Carolina, North Dakota, Ohio, Oregon, Pennsylvania, Puerto Rico, Rhode Island, South Carolina, South Dakota, Tennessee, Texas, Utah, Vermont, Virginia, Washington, Washington DC, West Virginia, Canada, Federal Energy Regulatory Commission and various state and federal courts of law. He has presented expert testimony in regulatory hearings on behalf of utility commission staffs and intervenors on several occasions.

Presented training seminars covering public utility accounting, tax reform, ratemaking, affiliated transaction auditing, rate case management, and regulatory. Seminars were presented to commission staffs and consumer interest groups, as well as Michigan State University's Camp NARUC.

Previous Positions

With Larkin, Chapski and Co., the predecessor firm to Larkin & Associates, was involved primarily in utility regulatory consulting, and also in tax planning and tax research for businesses and individuals, tax return preparation and review, and independent audit, review and preparation of financial statements.

Installed computerized accounting system for a realty management firm.

Education

Bachelor of Science in Administration in Accounting, with distinction, University of Michigan, Dearborn, 1979.

Master of Science in Taxation, Walsh College, Michigan, 1981. Master's thesis dealt with investment tax credit and property tax on various assets.

Juris Doctor, cum laude, Wayne State University Law School, Detroit, Michigan, 1986. Recipient of American Jurisprudence Award for academic excellence.

Continuing education required to maintain CPA license and CFP® certificate.

Passed all parts of CPA examination in first sitting, 1979. Received CPA certificate in 1981 and Certified Financial Planning certificate in 1983. Admitted to Michigan and Federal bars in 1986.