

COMMONWEALTH OF VIRGINIA  
STATE CORPORATION COMMISSION  
AT RICHMOND, OCTOBER 21, 2016

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APPLICATION OF

RAPPAHANNOCK ELECTRIC COOPERATIVE

CASE NO. PUE-2016-00019

For approval of a modified incentive for A/C switch demand-side management program; and for approval of a rate adjustment clause to recover the costs of the demand-side program pursuant to § 56-585.3 A 5 of the Code of Virginia

FINAL ORDER

On February 17, 2016, Rappahannock Electric Cooperative ("REC" or "Cooperative") filed with the State Corporation Commission ("Commission") an application ("Application") for approval of modified incentives for Cooperative members participating in the air conditioner cycling switch ("A/C switch") demand-side management program ("A/C Program" or "Program"), pursuant to §§ 56-235.1, 56-235.2 and 56-247 of the Code of Virginia ("Code") and the Commission's Rules Governing Utility Promotional Allowances, 20 VAC 5-303-10 *et seq.*, and Rules Governing Cost/Benefit Measures Required for Demand-Side Management Programs, 20 VAC 5-304-10 *et seq.* The Cooperative further requests approval of a rate adjustment clause, identified as the Demand Response Cost Recovery Rider ("DR Rider"), pursuant to § 56-585.3 A 5 of the Code, to recover the costs described in § 56-585.1 A 5 b of the Code.

In its Application, REC seeks approval to modify its A/C Program, beginning with the 2017 cooling season, to provide an ongoing incentive in the form of a recurring credit ("Recurring Credit") in addition to the current one-time incentive that was approved in

Case No. PUE-2010-00046.<sup>1</sup> Currently, participants in the A/C Program receive a one-time bill credit of \$25 in October following the first cooling season after the A/C switch is installed, provided the A/C switch remains in operation through September of that year. In order to increase participation and retention in the A/C Program, REC requests authorization to pay, in addition to the one-time bill credit, a Recurring Credit of \$24 per year per A/C switch.<sup>2</sup> REC proposes to apply the Recurring Credit throughout the cooling season in the form of four monthly bill credits of \$6 each (or a \$6 monthly credit corresponding to the number of full billing months remaining in the cooling season after a participant enrolls in the Program).<sup>3</sup> REC states that the Recurring Credit will be applied to both new and existing participants in the A/C Program.<sup>4</sup>

REC further requests approval of a new DR Rider to recover A/C Program costs not currently recovered in the Cooperative's base retail rates as approved by the Commission in Case No. PUE-2013-00052.<sup>5</sup> The Application states that REC's former method of recovering Program

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<sup>1</sup> *Application of Rappahannock Electric Cooperative, For approval of a demand-side management program including promotional allowances*, Case No. PUE-2010-00046, 2010 S.C.C. Ann. Rept. 513, Order Granting Approval (June 15, 2010). The A/C Program is a voluntary program for eligible residential member-consumers in which participants agree to installation by REC of a switch device that cycles a heat pump or central air conditioning unit off and on during periods of peak summer demand to reduce overall system demand, which reduces REC's overall wholesale power costs. Exhibit ("Ex.") 1 (Application) at 2-3.

<sup>2</sup> Ex. 3 (Falconer Direct, in the form of Paragraphs 1-9, 11-17, 22-38, 40-41, and Exhibits A, B, H and I of the Application ("Falconer Direct")) at ¶¶ 11-12.

<sup>3</sup> *Id.* at ¶ 12.

<sup>4</sup> *Id.* at ¶ 14(b).

<sup>5</sup> *Application of Rappahannock Electric Cooperative, For approval of a plan to migrate transitioning customers to the Cooperative's legacy rates and to revise rate schedules for electric service*, Case No. PUE-2013-00052, 2014 S.C.C. Ann. Rept. 270, Order Accepting Stipulation (Apr. 2, 2014).

costs has changed.<sup>6</sup> Accordingly, REC requests approval of the DR Rider in order to fully recover the costs associated with the existing A/C Program, as well as the capital and operating costs associated with the proposed expansion of the Program including, but not limited to, the Recurring Credit.<sup>7</sup> REC proposes that the DR Rider be applied to those customers subject to the Power Cost Adjustment ("PCA"), as it is those customers who receive the benefits from the A/C Program through reductions in wholesale power costs that are passed through to customers by the PCA.<sup>8</sup>

The Application states that the DR Rider will be determined prospectively for each calendar year based on REC's A/C Program budgeted activity and will include any accumulated over- or under-recovery of Program costs as of October 31 of the current year.<sup>9</sup> Based on the sample calculation included in the Application for 2016, a typical residential monthly bill would increase by approximately \$0.21 per 1,000 kilowatt hours ("kWh").<sup>10</sup>

On March 10, 2016, the Commission issued an Order for Notice and Hearing ("Notice Order") that, among other things, scheduled a public hearing; assigned the case to a Hearing Examiner; directed the Commission Staff ("Staff") to investigate the Application and file testimony; and provided REC the opportunity to file rebuttal testimony and exhibits. The Notice

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<sup>6</sup> Prior to January 1, 2014, the Cooperative was using a Wholesale Power Cost Adjustment rider to pass through changes in the wholesale rates for energy and capacity, which allowed the Cooperative to apply reductions in wholesale power costs toward Program operating costs and to contribute any net benefit to operating margins. However, when REC began using a PCA rider in January 1, 2014, it was no longer able to recover Program costs, above those already recovered through base rates, through reductions in wholesale power costs. Ex. 3 (Faulconer Direct) at ¶¶ 7(d), 24.

<sup>7</sup> *Id.* at ¶ 24.

<sup>8</sup> *Id.* at ¶ 26. Currently all Cooperative customers are subject to Schedule PCA-1, except those served under Schedules HD-1, LP-2, and LP-3, each of which provides for the direct recovery of purchased power costs.

<sup>9</sup> *Id.* at ¶ 28.

<sup>10</sup> *Id.* at ¶ 31; Ex. 5 (Gaines Direct, in the form of Paragraphs 22-31, and Exhibits E, F and G of the Application) at Exhibit G.

Order also directed REC to file additional documentation regarding projected costs and revenue requirement, as well as any testimony and exhibits in support of the Application or, in the alternative, a designation of witnesses identifying the portions of the Application that such witnesses would adopt and support as their testimony at the hearing. Notices of Participation were filed by the Board of Supervisors of Culpeper County, Virginia ("Culpeper County"), and the Office of the Attorney General's Division of Consumer Counsel ("Consumer Counsel").

On April 20, 2016, REC filed three Supplemental Schedules and the Summary of Direct Testimony of Matthew A. Faulconer, Thomas P. Handley, and Jack D. Gaines, which identified the portions of the Application adopted and supported by each witness.

On August 2, 2016, Staff filed the direct testimony and exhibits of Justin M. Morgan and Allison F. Samuel. On August 18, 2016, Staff filed a Motion for Leave to File Supplemental Testimony of Justin M. Morgan. On August 24, 2016, REC filed a Response to Motion for Leave to File Supplemental Testimony and Motion for Extension of Time to File Rebuttal Testimony, to which Staff filed a reply on August 25, 2016. By ruling dated August 25, 2016, the Senior Hearing Examiner directed that Staff's Supplemental Prefiled Testimony of Justin M. Morgan be accepted for filing and that the date for filing of REC's rebuttal testimony be extended to September 6, 2016.

On September 6, 2016, REC filed the rebuttal testimony of Thomas P. Handley, Jack D. Gaines and David F. Koogler.<sup>11</sup> Also on September 6, 2016, the Virginia, Maryland & Delaware Association of Electric Cooperatives filed Comments of the Virginia Electric Cooperatives on behalf of its members.

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<sup>11</sup> In addition, REC rebuttal witness Koogler adopted certain portions of the Application previously adopted by REC witness Faulconer, specifically, Paragraphs 10 and 39 of the Application.

On September 12, 2016, REC and Staff filed a Joint Motion to Approve Stipulation and a Stipulation that resolved the outstanding issues in this proceeding.<sup>12</sup> The Stipulation states in part:

- REC shall utilize the most recent Times Interest Earned Ratio ("TIER") approved by the Commission or, absent a specified TIER citation by the Commission, the rate year TIER derived from the most recent Commission-approved revenue requirement, for the purpose of calculating the TIER-related margin portion of the DR Rider revenue requirement. REC shall use a 1.60 TIER for calculating the DR Rider revenue requirement and A/C(base) until new rates are put into effect as a result of a Commission final order in a general rate proceeding;
- REC shall maintain and make available for review a detailed listing of all A/C switch projects performed in any prior period including work order numbers, cost, plant account numbers, and dates of work performance;
- In December of each year, REC shall file a schedule of DR Rider recoveries and a schedule of DR Rider costs, by month, by general ledger account, that supports the October 31 true-up credit or charge for that year, and a reconciliation of the per book deferral as of October 31 with the over- or under-recovery balance used for developing the true-up credit or charge;
- REC shall file an annual per books total system financial status statement by no later than April 30 of each year for the previous calendar year, commencing in 2018;
- The Commission's consideration of Staff's proposed earnings review and potential refund of DR Rider proceeds shall be deferred at this time, without prejudice to the Commission's future consideration thereof;
- REC shall book an entry no less frequently than on a quarterly basis to update the deferral balance;
- REC shall use the cost of service approved in the Cooperative's most recent rate case and, if a new rate case is filed, the fully adjusted (rate year) A/C Program costs and kWh sales amounts

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<sup>12</sup> Respondents Culpeper County and Consumer Counsel did not oppose the Stipulation.

shall be used in the cost of service calculations to set the A/C Program costs recovered through base rates, effective with the effective date of the base rates approved in that rate case; and

- For the initial DR Rider proposed to be effective January 1, 2017, the A/C(base) shall be \$0.000021 per kWh, representing the costs per kWh currently recovered in base rates, and the DR Rider will recover only incremental costs above \$0.000021 per kWh. All A/C Program costs to be recovered through the DR Rider shall be removed from base rates in the next rate case and set to zero.<sup>13</sup>

The evidentiary hearing, during which time the testimony and exhibits of REC and Staff were introduced and received into the record, was convened on September 13, 2016.

On September 21, 2016, the Senior Hearing Examiner issued his report ("Report"), which contained the Senior Hearing Examiner's findings and recommendations. In his Report, the Senior Hearing Examiner found that, "based on the record developed in this proceeding, and the unopposed Stipulation...the Stipulation should be adopted and the Cooperative's Application should be approved."<sup>14</sup> The Senior Hearing Examiner further recommended that this case be dismissed from the Commission's docket of active cases.<sup>15</sup>

On September 26, 2016, REC and Staff filed comments supporting the findings and recommendations made in the Senior Hearing Examiner's Report. In addition, Staff clarified that, although not addressed in the Stipulation, both the Application and Staff testimony proposed that REC file a triennial report ("Triennial Report") in this docket.<sup>16</sup> However, Staff recommended that in accordance with the Senior Hearing Examiner's recommendation to dismiss

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<sup>13</sup> Ex. 14 (Stipulation) at 3-4.

<sup>14</sup> Report at 20.

<sup>15</sup> *Id.*

<sup>16</sup> *See* Ex. 3 (Faulconer Direct) at ¶ 36; Ex. 7 (Morgan Direct) at 16. REC proposes that the Triennial Report, which will be filed February 1, 2020, for calendar years 2017-2019, will contain "a comprehensive narrative of the overall results of the Program for the three-year period." Ex. 3 (Faulconer Direct) at ¶ 36-37.

this case, the Triennial Report be filed under a new docket number, while the annual April and December reports referenced in the Stipulation would be submitted administratively to Staff for review.<sup>17</sup> Staff's comments also represented that REC is in accord with Staff's recommendation regarding the Triennial Report.<sup>18</sup>

NOW THE COMMISSION, upon consideration of this matter, is of the opinion and finds that the proposed Stipulation, as supplemented and clarified by Staff's comments to the Senior Hearing Examiner's Report, is reasonable and should be accepted.

Accordingly, IT IS ORDERED THAT:

- (1) REC's Application is granted as set forth herein.
- (2) The Stipulation is reasonable and hereby is adopted.
- (3) REC shall file a revised Schedule DR Rider and supporting workpapers with the Clerk of the Commission and the Divisions of Energy Regulation and Utility Accounting and Finance, as is necessary to comply with the directives set forth in this Final Order. The Clerk of the Commission shall retain such filings for public inspection in person and on the Commission's website: <http://www.scc.virginia.gov/case>.
- (4) The DR Rider, as approved herein, shall become effective January 1, 2017.
- (5) REC shall file its first Triennial Report on or before February 1, 2020.
- (6) This case is dismissed from the Commission's docket and placed in closed status in the records maintained by the Clerk of the Commission.

AN ATTESTED COPY hereof shall be sent by the Clerk of the Commission to all persons on the official Service List in this matter. The Service List is available from the Clerk of

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<sup>17</sup> Comments of the State Corporation Commission Staff on the Report of Alexander F. Skirpan, Senior Hearing Examiner, at 2-3.

<sup>18</sup> *Id.* at 3.

the Commission, c/o Document Control Center, 1300 E. Main Street, First Floor, Tyler Building,  
Richmond, Virginia 23219. A copy shall also be sent to the Commission's Office of General  
Counsel and Divisions of Energy Regulation and Utility Accounting and Finance.

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