241130155

COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, NOVEMBER 20, 2024

State Corporation Commission
Document Control Center
11/20/24 - 10:42 AM

APPLICATION OF

APPALACHIAN POWER COMPANY

CASE NO. PUR-2024-00024

For a 2024 biennial review of its base rates,
terms and conditions pursuant to § 56-585.8
of the Code of Virginia

FINAL ORDER

This proceeding is Appalachian Power Company's ("APCo" or "Company") first biennial review of its rates and terms and conditions for providing generation and distribution services pursuant to § 56-585.8 of the Code of Virginia ("Code").[1] This proceeding will set APCo's base rates for the next two calendar years (*i.e.*, January 1, 2025 through December 31, 2026), and follows the Commission's recent approval of a base rate revenue requirement increase of $127.3 million, effective January 1, 2024.[2] In its Application, APCo requested an annual base rate increase of $95.1 million, which equates to a monthly bill increase of $10.22, or 6.0%, for a typical residential customer.[3] APCo also proposed certain changes to its rate schedules and its terms and conditions of service.

---

[1] Code § 56-585.8; 20 VAC 5-204-5 *et seq*. This is the Company's first biennial review under Code § 56-585.8, which was enacted by the General Assembly in 2023 and requires the Commission to conduct biennial rate reviews of the rates, terms, and conditions for the provision of generation and distribution service by a Phase I Utility commencing on March 31, 2024.

[2] *Application of Appalachian Power Company, For a 2023 triennial review of its base rates, terms and conditions pursuant to § 56-585.1 of the Code of Virginia*, Case No. PUR-2023-00002, 2023 S.C.C. Ann. Rept. 356, Final Order (Nov. 30, 2023) ("2023 Final Order"). The Commission notes that this resulted in a roughly $16.03 increase to the monthly bill for a residential customer using 1,000 kilowatt-hours per month. 2023 Final Order at 357.

[3] Ex. 17 (Castle Direct) at 4. The $10.22 bill impact figure is based on a residential customer using 1,000 kilowatt-hours per month. The Company subsequently revised its request and now "support[s] a $64.2 million increase to its revenue requirement." APCo's Post-hearing Brief at 2. In addition, APCo proposed to move recovery of its generation consumables expense from base rates and to seek separate recovery thereof through a rate adjustment clause ("RAC"), which further lowers its base rate revenue request by approximately $18.8 million. *Id*. at 2-3.

Pursuant to this Commission's Order for Notice and Hearing: (1) APCo provided public notice of its Application;[4] (2) the Commission received public comments on the Application; and (3) the Commission convened a public evidentiary hearing from September 9-13, 2024, which included testimony from public witnesses and participation by APCo, Commission Staff ("Staff"), and those filing as respondents herein.

Post-hearing briefs were filed by APCo, Staff, and the following respondents: Office of the Attorney General, Division of Consumer Counsel ("Consumer Counsel"); Old Dominion Committee for Fair Utility Rates ("ODCFUR"); VML/VaCo APCo Steering Committee; Walmart, Inc. ("Walmart"); Steel Dynamics, Inc.; The Kroger Company; Appalachian Voices; and Virginia Poverty Law Center ("VPLC").

NOW THE COMMISSION, upon consideration of this matter, is of the opinion and finds as follows.[5]

2023 EARNINGS TEST

Code § 56-585.8 requires the Commission to review APCo's prior earnings in each biennial review proceeding.[6] For purposes of this first biennial review, the Commission is required to review the Company's calendar-year 2023 earnings only.[7] Based on the record in this proceeding, it is uncontested that APCo's earned return for the 2023 Earnings Test Period was

[4] Ex. 3 (Proof of Notice).

[5] In reaching the findings herein, the Commission has not relied upon as evidence the exhibits taken under advisement during the hearing.

[6] Code § 56-585.8 C.

[7] 2023 Va. Acts ch. 749, cl. 2.

less than its authorized return on equity ("ROE") over that same period of 9.5%.[8] As a result, the Commission finds that APCo's actual ROE was below its authorized return by more than 100 basis points during the Earnings Test Period;[9] however, the Commission declines to address at this time the relative merits of Staff and the Company's specific Earnings Test adjustments.

2025/2026 BASE RATES

The Commission is statutorily required to revise APCo's prospective rates to the extent it determines in a biennial review proceeding that the existing rates will, on a going-forward basis, produce revenues above or below the Company's authorized rate of return. Specifically, in such an instance, the Commission "shall order" appropriate rate revisions "to ensure the resulting rates . . . (a) are just and reasonable and (b) provide the utility an opportunity to recover its costs of providing services over the rate period . . . and earn a fair rate of return[.]"[10]

Based on the record in this proceeding, and consistent with existing law, the Commission finds an annual base rate increase of $9.768 million for the 2025-2026 biennial period to be just and reasonable, and sufficient to provide APCo the opportunity to recover its cost-of-service and a fair rate of return.[11] In reaching this conclusion, the Commission made findings on certain contested issues as discussed below.

[8] *See, e.g.*, Ex. 73 (Fritz Direct) at 11-12 ("Based on Staff's analysis, APCo earned an adjusted ROE of 3.18% for the Earnings Test Period."); Ex. 19 (Allen Direct) at 8 (asserting that the Company's actual ROE for the 2023 test year was 2.26%).

[9] Since earnings during the test year were sufficiently below the authorized return on equity, APCo may establish a severe weather regulatory asset of $9,976,913, as prescribed by Code § 56-585.8 G. *See, e.g.,* APCo's Post-hearing Brief at 3; Ex. 73 (Fritz Direct) at 11-12.

[10] Code § 56-585.8 F.

[11] The rates approved herein shall take effect for service rendered on and after January 1, 2025. Code § 56-585.8 F. A reconciliation from APCo's filed revenue requirement to the revenue requirement approved herein is included as an Attachment.

RETURN ON EQUITY

Based on the record in this proceeding, and applicable law and precedent, the Commission finds that a cost of equity within a range of 9.4% to 10.4% fairly represents the actual cost of equity in capital markets for companies comparable in risk to APCo seeking to attract equity capital. The Commission further concludes that, within that range, a specific ROE of 9.75% is fair and reasonable, supported by evidence in the record, and satisfies the standards set forth in *Hope* and *Bluefield*.[12]

In setting APCo's fair ROE, the Commission is permitted to use "any methodology it finds consistent with the public interest[.]"[13] The Commission has previously recognized that "[t]here is no single scientific correct rate of return."[14] The Commission, however, is guided by the standards set forth in the United States Supreme Court's *Hope* and *Bluefield* decisions,[15] which do not establish a particular method for determining an allowed ROE[16] but require that the end result be sufficient to allow the utility to attract new capital on reasonable terms, maintain its financial integrity, and offer a return commensurate with other investments of comparable risks.[17]

---

[12] *Federal Power Commission et al. v. Hope Natural Gas Company*, 320 U.S. 591 (1944) ("Hope"); *Bluefield Water Works and Improvement Co. v. Public Service Commission of West Virginia, et al.*, 262 U.S. 679 (1923) ("Bluefield").

[13] Code § 56-585.8 E.

[14] *Commonwealth ex re. Div. of Consumer Counsel v. Potomac Edison Co.*, 233 Va. 165, 171 (quoting *Central Tel. Co. of Va. v. State Corp. Comm'n*, 219 Va. 863, 874 (1979)).

[15] Ex. 39 (Woolridge Direct) at 3; Ex 72 (Gereaux Direct) at 11 n.9.; Ex. 36 (McKenzie Direct) at 5-6.

[16] *Hope* at 602 (finding that "the [Federal Power Commission] was not bound to the use of any single formula or combination of formulae in determining rates" as the "rate-making function . . . involves the making of 'pragmatic adjustments.'").

[17] *Id.* at 603.

The table below provides a summary of the ROE witness testimony presented in this proceeding.[18]

	ROE Range	Recommended ROE
APCo	10.30% - 11.30%	10.80%[19]
Consumer Counsel	9.25% - 9.75%	9.50%[20]
Staff	9.20% - 10.20%	9.70%[21]
Walmart	n/a	≤ 9.50%[22]
ODCFUR	n/a	< 10.8%[23]

As noted above, Company witness McKenzie presented an ROE range in this proceeding of 10.3% to 11.3% and recommends a specific ROE of 10.8%, the midpoint of his proposed range. Witness McKenzie relied on cost of equity estimates produced by his application of the following analyses: the Discounted Cash Flow ("DCF") model; the Capital Asset Pricing Model ("CAPM"); the Empirical Capital Asset Pricing Model ("ECAPM"); the Utility Risk Premium method; and the Expected Earnings method. Staff witness Gereaux's testimony supported an ROE range of 9.20% to 10.20%, and recommends a specific ROE of 9.70%, the midpoint of his

[18] Respondents not included in the table did not present witness-sponsored testimony regarding the appropriate ROE for APCo in this proceeding.

[19] Ex. 36 (McKenzie Direct) at 4.

[20] Ex. 39 (Woolridge Direct) at 68-70.

[21] Ex. 72 (Gereaux Direct) at 23.

[22] Ex. 47 (Chriss Direct) at 16-17 (asserting "the Commission should approve an ROE no higher than the Company's currently approved ROE of 9.50 percent" based on a number of factors, including APCo's ability to recover certain costs through RACs, the rate impacts of a revenue requirement increase, and recent ROE trends in Virginia and other jurisdictions).

[23] Ex. 61 (Walters Direct) at 4 (recommending the Commission reject APCo's proposed ROE "and approve a return on equity consistent with recent market evidence which indicates an appropriate return on equity is significantly less than 10.8%.").

range. Witness Gereaux's conclusions were based on the results of his DCF, CAPM, and Utility Risk Premium analyses. Consumer Counsel witness Woolridge supported an ROE range of 9.25% to 9.75% and recommends a specific ROE of 9.50%. Witness Woolridge's analyses relied on his application of the DCF and CAPM models, with greater weight given to the DCF results. Walmart witness Chriss and ODCFUR witness Walters do not present standalone cost of equity estimates based on the DCF, CAPM, or other methodology, but provide testimony challenging the reasonableness of APCo's requested ROE.[24]

The Commission has previously relied on the use of multiple well-accepted cost of equity methods when setting a utility's fair and reasonable ROE, and continues to do so here, giving appropriate weight to each. As noted by Staff witness Gereaux, "[t]he use of several cost of equity methods to derive estimates for different companies within a proxy group helps to mitigate the impact of any temporary market anomalies that may be present in the market data of one company at a particular time."[25] Based on the evidence in the record, the Commission concludes that a cost of equity range of 9.4% to 10.4% is supported by reasonable proxy groups, growth rates, DCF and CAPM methods, and risk premium analyses.

In reaching this conclusion, the Commission relies primarily on the cost of equity estimates derived from the DCF, CAPM, and risk premium methods. Based on the record in this proceeding, the Commission finds that it is appropriate to give little weight to the Expected Earnings and ECAPM methods here. As explained by Staff witness Gereaux and Consumer Counsel witness Woolridge, there are a number of potential deficiencies with the Expected

---

[24] *See supra* at nn.20 & 21.

[25] Ex. 72 (Gereaux Direct) at 11 n.11; *see also* Ex. 36 (McKenzie Direct) at 35-36 ("In my experience, financial analysts and regulators routinely consider the results of alternative approaches in evaluating a fair ROE. No single method can be regarded as failsafe, with all approaches having advantages and shortcomings.").

Earnings approach, including that it does not measure the market cost of equity capital and is independent of most cost of capital indicators.[26] Similarly, consideration of witness McKenzie's ECAPM analysis in this proceeding may be redundant and may lead to upwardly-biased cost of equity estimates.[27] As a result, the Commission is not persuaded at this time that consideration of the results of these two methods will lead to reasonable approximations of the market cost of equity in this instance.

With respect to the DCF, CAPM, and risk premium methodologies, the Commission has considered, as it has in previous cases,[28] that APCo witness McKenzie's use of DCF analyses that overemphasize projected earnings per share ("EPS") growth rates results in upwardly-biased cost of equity estimates.[29] Likewise, the Commission finds witness McKenzie's market risk premium based on overemphasized projected EPS growth rates in the DCF portion of his CAPM produces a similar upward bias.[30] The Commission also concludes that the size adjustment reflected in

---

[26] Ex. 72 (Gereaux Direct) at 22-23 (noting, among other things that "[t]he projected accounting return on average common equity of a company for the short horizon is not a sound or rational basis for estimating the market cost of equity, which is premised on long-term expectations of future cash flows."); Ex. 39 (Woolridge Direct) at 100-102.

[27] Ex. 72 (Gereaux Direct) at 18-19 ("The Company's methodology incorporates Value Line adjusted beta values, which makes the additional beta enhancement of the ECAPM redundant."); Ex. 39 (Woolridge Direct) at 78-79; Ex. 61 (Walters Direct) at 10.

[28] *See, e.g., 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, 402, Final Order (Nov. 21, 2019).

[29] Ex. 72 (Gereaux Direct) at 15-16; Ex. 39 (Woolridge Direct) at 46-49, 75-77; Ex. 61 (Walters Direct) at 5-6 ("Mr. McKenzie's DCF model using IBES growth rates assumes the proxy group's growth will exceed the growth of the US economy by approximately 46% in perpetuity."). Although witness McKenzie conducts three DCF analyses that rely solely on projected EPS growth and one DCF analysis using a sustainable growth rate metric, his ROE recommendations place most if not all emphasis on the former. Ex. 36 (McKenzie Direct) at 44-45.

[30] Ex. 72 (Gereaux Direct) at 17-18; Ex. 39 (Woolridge Direct) at 79-83.

witness McKenzie's CAPM analysis is not supported by the record in this proceeding.[31] Finally, the Commission continues to find that Mr. McKenzie's Utility Risk Premium Analysis, which uses commission-authorized ROEs from across the country, fails to account for non-market factors that influence these ROEs (*e.g.*, settlements, performance-based adjustments, differing legislative requirements, and principles of gradualism).[32]

Within the Commission's ROE range, the Commission finds that a specific ROE of 9.75% is fair, reasonable, and consistent with the public interest. Approval of a 9.75% ROE, which is below the midpoint of the range, carefully balances the interests of the Company, its investors, and its customers. Specifically, it ensures APCo has an opportunity to earn a fair return on equity consistent with *Hope* and *Bluefield* and Code § 56-585.8 while mitigating the potential rate shock and economic hardship experienced by APCo's residential customers following a series of recent rate increases.[33] The Commission also recognizes that APCo's ability to recover certain costs through RACs, such as the E-RAC discussed herein, shifts the risks attendant to ratemaking away from shareholders and on to customers.[34] This relative risk-shifting may merit consideration when setting APCo's ROE to the extent it is not already

---

[31] Ex. 72 (Gereaux Direct) at 19-20 (asserting the size adjustment "does not specifically consider the unique regulated operational and return characteristics of utility companies, whose returns are not as likely to be correlated to size as unregulated companies."); Ex. 39 (Woolridge Direct) at 95-97; Ex. 61 (Walters Direct) at 10.

[32] Ex. 72 (Gereaux Direct) at 21-22; Ex. 39 (Woolridge Direct) at 98-99; Ex. 61 (Walters Direct) at 11-12.

[33] Most recently, a base rate increase of $16.03 for a typical residential customer was approved in the Company's 2023 Triennial Review proceeding. *Application of Appalachian Power Company, For a 2023 triennial review of its base rates, terms and conditions pursuant to § 56-585.1 of the Code of Virginia*, Case No. PUR-2023-00002, 2023 S.C.C. Ann. Rept. 356, 357, Final Order (Nov. 30, 2023).

[34] *See, e.g.*, Ex. 47 (Chriss Direct) at 8-9.

captured in the cost of equity methodologies considered by the Commission; however, the record in this proceeding is not sufficiently developed to support any such adjustment at this time.[35]

Capital Structure

The Commission approves Staff's recommended capital structure and cost of capital. We find that it accurately reflects APCo's "actual end-of-test period capital structure and cost of capital," and we do *not* find that the "debt to equity ratio of the actual end-of-test period capital structure of [the Company] is unreasonable."[36]

Depreciation

The Commission finds that APCo's 2040 retirement dates used for its Amos and Mountaineer generation facilities for depreciation purposes remain reasonable at this time. While the Commission appreciates Staff's concerns over potential rate shock and intergenerational inequities,[37] the Commission concludes that such concerns are sufficiently outweighed by the premature nature of the adjustment at this time.[38]

The Commission also finds that APCo's updated retirement date for its Clinch River facility from 2025 to 2030 is reasonable and approves Staff's recommendation to implement updated depreciation rates as of January 1, 2024.[39]

---

[35] Additionally, the Commission has at this time exercised its discretion to find it reasonable not to make potential ROE adjustments for "reliability, generating plant performance, customer service, and operating efficiency." Code § 56-585.8 E. This, however, in no manner precludes consideration of such in future proceedings under this statute.

[36] Code § 56-585.8 H. *See, e.g.,* Ex. 71 (Elmes Direct) at 8; Staff's Post-hearing Brief at 6-8.

[37] Ex. 75 (Welsh Direct) at 12; Tr. 805, 807-808.

[38] Ex. 97 (Castle Rebuttal) at 1-2; Ex. 106 (Jessee Rebuttal) at 8; Tr. 210-214.

[39] *See, e.g.,* Ex. 27 (Jessee Direct); Ex. 75 (Welsh Direct). The Commission also approves as reasonable Staff's additional depreciation adjustments. Ex. 75 (Welsh Direct) at 19-20.

STATIC VAR COMPENSATOR ("SVC")

In its Application, the Company proposes to recover the SVC's remaining net book value ("NBV") of $5.2 million through the Company's depreciation rates.[40] Conversely, Staff recommends treating the remaining NBV as a loss on disposition of utility property and that such loss be shared 50-50 between ratepayers and shareholders by way of an above-the-line adjustment in the 2023 Earning Test.[41]

The record in this proceeding does not support a finding that APCo's sale of the SVC was imprudent.[42] However, the Commission finds that APCo has not sufficiently demonstrated that it took reasonable and prudent steps to mitigate its additional investments made in the SVC in 2022 just prior to transferring the asset.[43] As a result, the Commission finds that 50% of the remaining NBV of the SVC should be removed from the going-forward cost of service and recognized as a test year loss on disposition of property, with the remaining 50% to be recovered through the Company's depreciation rates.

VEGETATION MANAGEMENT AND DISTRIBUTION INSPECTION EXPENSES

The Commission finds that rate year expenses should include a reasonable amount for vegetation management and distribution inspections, without any deferred accounting related thereto. We further approve Staff's proposed amount for these expenses as reasonable.[44]

[40] Ex. 17 (Castle Direct) at 10; Ex. 5 (Cash Direct) at 9.

[41] Ex. 75 (Welsh Direct) at 14-17. Specifically, Staff proposes an adjustment to include 50% of the loss in the 2023 Earnings Test. The remaining NBV of the SVC would be removed from the Rate Year cost of service.

[42] *See, e.g.*, Ex. 75 (Welsh Direct) at 16-17 ("Q. Does Staff consider the sale of the SVC imprudent? A. No. . . .").

[43] Tr. at 232-233.

[44] Ex. 75 (Welsh Direct) at 21; Tr. 787.

WORST PERFORMING CIRCUIT ("WPC") PROGRAM EXPENSE

The Commission finds that it is reasonable to continue the WPC Program as a pilot program at this time, without any deferred accounting related thereto, and at the expense amount recommended by Staff.[45] The Commission notes Consumer Counsel witness Norwood's concerns regarding the WPC Program, including the structure of the Program and the lack of a cost-benefit analysis.[46] However, given that the WPC Program has been in effect for less than one year and is expected to result in additional reliability improvements as the Program continues,[47] the Commission finds it would be unreasonable to discontinue the WPC Program at this time based on the evidence presented in the record here. Continuation of the WPC Program is also expected to provide data that may be helpful in considering the effectiveness of any future proposal to transition to an end-to-end cycle-based trimming vegetation management program.[48] In its next base rate review, however, the Commission directs APCo to present a detailed cost-benefit analysis of the WPC Program.

COAL INVENTORY

The Commission concludes the evidence in this case supports a finding that it is reasonable to use a 35-day average burn rate to calculate coal inventory carrying costs for the

[45] Ex. 91 (Ingram Direct) at 17-18; Ex. 75 (Welsh Direct) at 21.

[46] Ex. 48 (Norwood Direct) at 13.

[47] Ex. 91 (Ingram Direct) at 18.

[48] Tr. 988.

purpose of rate year expenses.[49] The Commission further finds the Company has not established that utilization of such is unreasonable for system operation.[50]

In addition, the Commission directs APCo to include in its next base rate review a data-driven analysis to support the target security level for coal inventories and to provide a narrative report documenting the rationale for any changes in the target security level.[51]

Coal Plant Dispatch

Consistent with APCo's response to the request of Appalachian Voices,[52] the Commission directs APCo to include in its next base rate review a report that documents: (1) the capacity factor by month for each of its coal units; (2) total megawatts ("MW") generated each month by each of its coal units; (3) total MW generated each month from the units under a must-run self-dispatch designation; and (4) total MW generated each month from the units under a must-run designation that turned out to be uneconomic.[53]

Generation Consumables

The Commission finds that generation consumables are not appropriate for deferred accounting treatment in base rates.[54] The Company has indicated, however, that if it is not permitted to recover these costs as it has proposed, it will seek recovery through a RAC, which

---

[49] *See, e.g.,* Ex. 74 (Carr Direct) at 2-3; Ex. 75 (Welsh Direct) at 7; Ex. 46 (Abbott Direct) at 9-10.

[50] *See* Tr. 769-771.

[51] Ex. 46 (Abbott Direct) at 10.

[52] *See* Tr. 1069-1070, 1119-1120.

[53] Ex. 46 (Abbott Direct) at 14. In addition, after considering the pleadings thereon, the Commission herein exercises its discretion not to grant Appalachian Voices' Motion to Compel (4), *supra,* for purposes of the instant proceeding.

[54] *See, e.g.,* Ex. 75 (Welsh Direct) at 28-29.

reduces its base rate expense herein by $18.8 million.[55] As a result, APCo may still seek to increase rates by approximately this amount, and the reasonableness of its proposed generation consumables expense and the appropriateness of the requested recovery thereof in a RAC will be litigated and determined in that subsequent proceeding.[56]

Capacity Sales and Insurance Costs

The Commission finds that capacity sales and insurance costs are not appropriate for deferred accounting treatment.[57] The Commission approves as reasonable Staff's proposed Rate Year expense increase of $59,000 to normalize PJM capacity insurance expense based on average expenses over the past five years.[58]

2023 Severe Weather Events – Expenses

Code § 56-585.8 G directs that the "Commission shall authorize deferred recovery for reasonable (i) actual costs associated with severe weather events..., and the Commission shall allow the utility to amortize and recover such deferred costs over future periods as determined by the Commission." The Commission finds that, to implement this directive, APCo is authorized to amortize and recover its reasonable and actual costs associated with severe weather events over the future period beginning January 1, 2025[59] for a two year period.[60]

---

[55] *See, e.g.,* Ex. 97 (Castle Rebuttal); APCo's Post-hearing Brief at 2-3. The amount of generation consumables expense is $18.8 million. Ex. 75 (Welsh Direct) at 30. The revenue requirement impact of removing that expense – that is, adjusted for the impacts on taxes and factoring expense – is $19.1 million.

[56] Tr. 90-91, 140-141, 804; APCo's Post-hearing Brief at 3.

[57] Ex 75 (Welsh Direct) at 30-31.

[58] *Id.* at 31.

[59] *See, e.g.,* Ex. 97 (Castle Rebuttal) at 11-12.

[60] *See id.* at 5; Ex. 19 (Allen Direct) at 10; Ex. 73 (Fritz Direct) at 11-12.

2020-2022 Severe Weather and COVID Regulatory Assets

The Commission approves Staff's recommended treatment of these regulatory assets as reasonable and consistent with the stipulation approved in APCo's 2023 Triennial Review.[61]

Inter-Company Power Agreement ("ICPA")

The Commission finds that the costs incurred under the ICPA were reasonable under the particular circumstances of this case.[62]

In addition, as recommended by Consumer Counsel, the Commission directs APCo to include in its next base rate review: (1) a detailed evaluation of the economic feasibility of continued operations of the Ohio Valley Electric Corporation units, in comparison to early retirement and replacement of the units before the ICPA terminates; and (2) an explanation of the actions it has taken to ensure the accuracy and reasonableness of costs incurred under the ICPA.[63]

Deferred Fuel Balance

The Commission finds that the Company's remaining deferred fuel balance, and its treatment of deferred fuel balance carrying costs, is reasonable under the specific circumstances attendant to these particular costs.[64]

---

[61] *See, e.g.*, Ex. 75 (Welsh Direct) at 31-32.

[62] *See, e.g.*, Ex. 97 (Castle Rebuttal) at 5. In making this finding, however, the Commission has *not* determined that rejection of any costs found unreasonable under the ICPA would violate the filed rate doctrine.

[63] Ex. 48 (Norwood Direct) at 26.

[64] *See, e.g.*, Ex. 97 (Castle Rebuttal).

Long-Term Incentive Program

The Commission finds that the Company's proposed target-level long-term incentive program expense, including the portion of the expense for stock-based compensation, is reasonable.[65]

2024 Severance Program

The Commission finds that Staff's recommendation on the rate year level of expenses regarding the 2024 Severance Program reasonably reflects the net expenses of this program established on the instant record and for the purpose of determining the annual revenue requirement herein.[66] The Commission has reached this conclusion based on the specific evidence presented in this proceeding on the known and reasonably predicted rate year costs and savings attendant to this program.[67]

Accounts Receivable ("A/R") Factoring

Consumer Counsel asserts that the December 2023 collection experience rate is more reflective of prospective write-offs than is the average 2023 collection experience rate proposed by the Company.[68] The Commission agrees with the Company that an average collection experience rate is a more robust metric than any individual month.[69] Thus, the Commission

---

[65] Ex. 7 (Kerber Direct) at 9-10.

[66] *See, e.g.,* Ex. 73 (Fritz Direct); Ex. 75 (Welsh Direct).

[67] Staff's Post-Hearing Brief at 16-17.

[68] Ex. 65 (Smith Direct).

[69] *See, e.g.,* Ex. 102 (Allen Rebuttal).

finds that it is reasonable to utilize the 2023 average collection experience rate to calculate the A/R Factoring expense herein.[70]

Additional Expense Items

The Commission approves the following as reasonable: (1) APCo's requested level of projected non-labor Generation Operation & Maintenance expenses;[71] (2) Staff's recommended Corporate Alternative Minimum Tax ("CAMT") and other tax adjustments, and APCo's request for continued authority to defer any difference between actually incurred CAMT and the level reflected in base rates;[72] (3) Staff's recommended adjustments to regulatory expense and lobbying expense;[73] (4) Staff's recommended adjustments to payroll, benefits, and payroll taxes;[74] and (5) APCo's going forward adjustments related to joint-use assets and umbrella trust plan expenses.[75]

RATE SCHEDULES AND TERMS AND CONDITIONS OF SERVICE

Monthly Customer Charge

The Commission finds that APCo's current monthly residential customer charge of $7.96 remains reasonable and denies the Company's request to increase it to $9.00.[76] APCo's proposed changes to customer charge for the remaining classes of non-residential customers is approved.[77]

---

[70] Ex. 75 (Welsh Direct) at 33.

[71] *See, e.g.,* Ex. 106 (Jessee Rebuttal).

[72] *See* Ex. 74 (Carr Direct) at 9-11.

[73] *See* Ex. 75 (Welsh Direct) at 34; Ex 73 (Fritz Direct) at 10.

[74] Ex. 73 (Fritz Direct) at 2-3.

[75] Ex. 9 (Lysiak Direct) at 4-6.

[76] *See, e.g.,* Ex. 81 (Handley Direct) at 14; Ex. 46 (Abbott Direct) at 2-4; Staff's Post-hearing Brief at 36-37.

[77] *See, e.g.,* Ex. 1 (Application) at Schedule 41; Ex. 81 (Handley Direct) at 14-15.

Cost Allocation and Revenue Apportionment

The Commission finds that APCo's cost of service study is reasonable, including continued use of the six coincident peak allocation factor for production costs. The Commission approves the Company's functional allocation between generation and distribution, and its class allocations for generation and distribution costs.[78]

The Commission also finds that APCo's proposed revenue apportionment among customer classes is reasonable.[79] The Commission further concludes that it is reasonable to maintain that revenue apportionment, for both generation and distribution functions, as part of the reduced base rate increase approved herein.[80]

Customer Assistance

The Commission finds that the Company should work with VPLC and other interested stakeholders to develop a plan aimed at reducing residential service disconnections and to present such in its next base rate review.[81] The Company's efforts in this regard should also include consideration of expanded energy assistance options, as well as identifying ways to better inform customers of available energy assistance options.[82] This further includes exploring

---

[78] *See, e.g.,* APCo's Post-hearing Brief at 49-50; Staff's Post-hearing Brief at 21, 27-28.

[79] *See, e.g.,* APCo's Post-hearing Brief at 49-50; Staff's Post-hearing Brief at 28.

[80] *See, e.g.,* Staff's Post-hearing Brief at 28 ("[I]n the event the Commission approves a revenue requirement that is less that what was requested by the Company, Staff recommends that class (and sub-class) revenue increases be adjusted proportionally in accordance with the revenue apportionment methodology approved by the Commission in this proceeding."); Ex. 78 (Pratt Direct) at 14; *see also* Tr. 615 (ODCFUR witness Baron agreeing with Staff witness Pratt's recommendation "that in the event the Commission approves a revenue requirement in this case that is lower than the Company's filed request, that the rate class revenue increases be scaled back proportionally."). These findings apply to all customer classes, including apportionment for Outdoor Lighting, which the Commission likewise concludes is reasonable.

[81] *See, e.g.,* VPLC's Post-hearing Brief at 17.

[82] *See, e.g.,* Ex. 42 (Wiggins) at 6-7, 10. The Commission also finds that it is reasonable for APCo's internal risk level scoring to remain so at this time. *See, e.g.,* Ex. 118 (Long Rebuttal) at 6-7; VPLC's Post-hearing Brief at 17.

additional ways to inform potentially eligible customers of the Percentage of Income Payment Program.[83] Finally, the Company should develop and implement a pilot program, in consultation with VPLC, to increase the Company's maximum payment plan window from 12 to 18 months (along with any additional options for payment flexibility) for a subset of customers and report to the Commission on the effect, if any, on the Company's bad debt expense.

Schedule LPS

The Commission denies APCo's proposed Schedule LPS without prejudice. The Company designed this schedule to serve large hyperscale customers with metered demand over 200 MW.[84] The Commission agrees that it is reasonable to consider specific tariff provisions directed toward such potential customers. We find the instant record insufficient, however, to impose at this time new requirements attendant to these customers.

Alternative Rate Designs – Advanced Metering Infrastructure ("AMI")

The Commission agrees with Appalachian Voices recommendation that, in conjunction with APCo's implementation of AMI meters, the Company should now explore alternative rate design proposals (including but not limited to time-of-use rates, demand charges, and demand response).[85] The Company shall incorporate its efforts in this regard in its next base rate review. This shall include any new rate design proposals, as well as an explanation of alternative rate designs the Company considered and chose not to submit for approval.

---

[83] *See, e.g.,* Appalachian Voices' Post-hearing Brief at 9-10.

[84] *See, e.g.,* Ex. 97 (Castle Rebuttal); Ex. 105 (Walsh Rebuttal).

[85] *See, e.g.,* Ex. 46 (Abbott Direct); Ex. 105 (Walsh Rebuttal).

Rider NREC

The Commission finds reasonable and approves Rider NREC with the modifications as unopposed by the Company.[86]

Schedule PEVCFS

The Commission finds reasonable and approves Schedule PEVCFS with the modifications and reporting requirements as unopposed by the Company.[87] APCo shall also review adjusting the 100-customer limit and address the results thereof in its next base rate review.

Schedule LFEVC

The Commission finds reasonable and approves Schedule LFEVC with the modifications and reporting requirements as unopposed by the Company.[88]

Rider DRS-RTO

The Commission finds reasonable and approves Rider DRS-RTO with the modifications as unopposed by the Company.[89]

Schedule GS

The Commission does not herein approve the changes proposed by Walmart to Schedule GS during the hearing.[90] Rather, as recommended by Staff, we find that matters related to modifying the GS rate design should be addressed at this time through the stakeholder process

---

[86] *See, e.g.,* Ex. 104 (Morris Rebuttal) at 1; Ex. 94 (Ellis Direct) at 13-14; Ex. 46 (Abbott Direct) at 16.

[87] *See, e.g.,* Ex. 96 (Notestone Rebuttal) at 6; Ex. 118 (Long Rebuttal) at 3; Ex. 92 (Katsarelis Direct) at 13-14.

[88] *See, e.g.,* Ex. 32 (Long Direct) at 4; Ex. 118 (Long Rebuttal) at 3; Ex. 92 (Katsarelis Direct) at 14.

[89] *See, e.g.,* Ex. 97 (Castle Rebuttal) at 16; Ex. 95 (Knight Direct) at 13-14.

[90] *See, e.g.,* Tr. 258-263; Ex. 23.

originally proposed in Walmart's filed testimony, and any proposed modifications included as part of APCo's next base rate review.[91]

Additional Tariff Items

The Commission approves APCo's following requests as reasonable: (1) recognition of Juneteenth (June 19) as one of the legal holidays on which service disconnections for non-payment may not occur;[92] (2) updates to Rider NMS;[93] (3) elimination of Rider TRR;[94] (4) adding the Christiansburg district back to its tariff;[95] (5) adding non-residential customers with less than 25 kilowatts of average metered demand to its AMI opt-out provision;[96] and (6) updating the maximum temperature for suspension of disconnection, and clarifying the reconnection deposit terms for customers receiving payment assistance from the Department of Social Services.[97]

Accordingly, IT IS ORDERED THAT:

(1) The Company's Application is granted in part and denied in part as set forth in this Final Order.

(2) The Company shall comply with the directives set forth in this Final Order.

---

[91] Staff's Post-hearing Brief at 38-39.

[92] *See, e.g.*, Ex. 32 (Long Direct) at 2; Ex. 93 (Cuba Direct) at 15.

[93] *See, e.g.*, Ex. 32 (Long Direct) at 7; Ex. 93 (Cuba Direct) at 13.

[94] *See, e.g.*, Ex. 32 (Long Direct) at 3; Ex. 93 (Cuba Direct) at 14.

[95] *See, e.g.*, Ex. 32 (Long Direct) at 3; Ex. 93 (Cuba Direct) at 3-4.

[96] *See, e.g.*, Ex. 32 (Long Direct) at 6; Ex. 93 (Cuba Direct) at 9.

[97] *See, e.g.*, Ex. 32 (Long Supplemental) at 1-2; Ex. 93 (Cuba Direct) at 16. The Commission also approves APCo's request to eliminate some, and to modify other, previously imposed reporting requirements; *See, e.g.*, Ex. 8 (Morris Direct) at 6-8; Ex. 81 (Handley Direct) at 5-8.

(3) The Company shall forthwith file revised tariffs and terms and conditions of service and supporting workpapers with the Clerk of the Commission and with the Commission's Divisions of Public Utility Regulation and Utility Accounting and Finance, as necessary to comply with the directives and findings set forth in this Final Order. The Clerk of the Commission shall retain such filing for public inspection in person and on the Commission's website: scc.virginia.gov/pages/Case-Information.

(4) This case is dismissed.

A COPY hereof shall be sent electronically 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 the Commission.

Line No.	Issue	Revenue Requirement Impact
	Final Order Revenue Requirement Reconciliation	
1	**Company Proposed Incremental Revenue Requirement - Initial Application**	**95,118,943**
2	Supplemental Filing	(16,814,685)
3	Return on Equity	(21,904,180)
4	Capital Structure	(1,330,538)
5	Depreciation - Amos & Mountaineer	-
6	Depreciation - Clinch River	-
7	Depreciation - Other Adjustments	(148,400)
8	Static Var Compensator	(174,632)
9	Vegetation Management and Inspection Expense	(11,518,329)
10	Worst Performing Circuit Program Expense	(458,903)
11	Coal Inventory	(8,335,365)
12	Generation Consumables	(19,107,190)
13	Capacity Sales and Insurance Costs	59,860
14	Severe Weather Events - Expenses	-
15	Severe Weather and COVID Regulatory Assets	(723,241)
16	Inter-Company Power Agreement	-
17	Deferred Fuel Balance	-
18	Long-Term Incentive Program	-
19	Severance Program	(3,314,285)
20	Accounts Receivable ("A/R") Factoring	1,358,851
21	Additional Expense Items - Non-Labor Generation O&M Expense	-
22	Additional Expense Items - CAMT and Other Tax Adjustments	(68,055)
23	Additional Expense Items - Regulatory Expense and Lobbying	(72,474)
24	Additional Expense Items - Payroll, Benefits, and Payroll Taxes	(2,984,064)
25	Additional Expense Items - Joint-Use Assets and Umbrella Trust Plan Expense	-
26	Cash Working Capital Effects of Other Adjustments	184,986
27	**Commission-Authorized Incremental Revenue Requirement**	**9,768,300**