

COMMONWEALTH OF VIRGINIA  
STATE CORPORATION COMMISSION

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APPLICATION OF CASE NO. PUR-2017-00058  
VIRGINIA ELECTRIC AND POWER COMPANY

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To revise its fuel factor pursuant  
to Code Section 56-249.6 of  
the Code of Virginia

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CERTIFIED ORIGINAL

TRANSCRIPT OF PROCEEDINGS BEFORE  
THE HONORABLE JUDITH WILLIAMS JAGDMANN

THE HONORABLE MARK C. CHRISTIE

THE HONORABLE JAMES C. DIMITRI

June 14, 2017

10:00 a.m. - 11:23 a.m.

Richmond, Virginia

REPORTED BY: SCOTT D. GREGG, RPR

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1 APPEARANCES: (Cont'd)

2  
3 William C. Cleveland, IV, Esquire,

4 and

5 Gregory Buppert, Esquire,

6 The Southern Environmental

7 Law Center, Appalachian Voices,

8 Chesapeake Climate Action Network and

9 the Virginia Chapter of the Sierra Club

10 ("Environmental Respondents")

11  
12 Louis R. Monacell, Esquire,

13 and

14 James G. Ritter, Esquire,

15 Counsel to Virginia Committee for Fair

16 Utility Rates

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P R O C E E D I N G S

THE CLERK: Today's docket consists of  
Case No. PUR-2017-00058.

The Honorable Judge Judith William  
Jagdmann, chairman, presiding.

CHAIRMAN JAGDMANN: Good morning. On  
May 4th of this year, Virginia Electric and Power  
Company filed with this Commission an application to  
revise its fuel factor. The Company seeks an increase  
from 1.971 cents to 2.383 cents per kilowatt-hour,  
effective July 1st of this year.

On May 11th, we issued a procedural  
order. We directed the Company to provide public  
notice of its application and scheduled an evidentiary  
hearing for today, June 14th.

The Virginia Committee for Fair Utility  
Rates, Appalachian Voices, the Board of Supervisors of  
Culpeper County, and the Office of the Attorney  
General's Division of Consumer Counsel filed notices  
of participation. The Commission Staff filed its  
testimony on June 7th.

On June 8th, the Company filed a letter  
stating that it agrees with the conclusions in Staff's  
testimony and does not intend to file any rebuttal  
testimony.

1 Let's begin with introduction of counsel.

2 MR. REID: Good morning, Your Honor. I'm  
3 Joe Reid, from McGuireWoods. And along with my  
4 colleague, Elaine Ryan and Billy Baxter, from Dominion  
5 Energy, we represent the Applicant, Virginia Electric  
6 and Power Company.

7 MR. CLEVELAND: Good morning. May it  
8 please the Commission, my name is Will Cleveland, with  
9 the Southern Environmental Law Center. Along with  
10 colleague, Greg Buppert, we represent Appalachian  
11 Voices, the Environmental Respondents.

12 MR. MONACELL: Good morning. I'm Louis  
13 Monacell. And with me this morning is James Ritter.  
14 We represent the Virginia Committee for Fair Utility  
15 Rates.

16 I'd also like to introduce to you our  
17 summer associate who is here to learn as to the  
18 practice before the Commission, Bennett Eastman.

19 If you will stand.

20 He's a rising third-year student at  
21 Washington Lee Law School.

22 CHAIRMAN JAGDMANN: Well, welcome. I  
23 think that you will see that we have a high level of  
24 professionalism in the utility bar, and we welcome  
25 you.

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1 MR. EASTMAN: Thank you. Happy to be  
2 here.

3 MR. BROWDER: Good morning, Your Honors.  
4 I'm Meade Browder, along with Cody Murphey, on behalf  
5 of the Office of the Attorney General's Division of  
6 Consumer Counsel.

7 MR. OCHSENHIRT: Good morning, Your  
8 Honors. Fred Ochsenhirt and Alisson Klaiber, for the  
9 Commission Staff.

10 CHAIRMAN JAGDMANN: Okay. Are there any  
11 public witnesses who wish to appear before the  
12 Commission this morning?

13 Let the record reflect that there are  
14 none.

15 Are there any preliminary matters that we  
16 need to address this morning?

17 Okay. Let the record reflect that there  
18 are none.

19 Our procedural order required the Company  
20 to publish notice in its -- notice of its application  
21 in newspapers of general circulation in its Virginia  
22 service area and by personal or electronic delivery or  
23 by first-class mail to certain local public officials.

24 On June 8th, the Company filed proof of  
25 notice and publications.



1 If there are no concerns with this  
2 document, I will mark it as Exhibit 1 at this time and  
3 receive it into evidence.

4 (Exhibit No. 1 was marked and admitted  
5 into evidence.)

6 CHAIRMAN JAGDMANN: We will now mark the  
7 Company's application filed on May 4th as Exhibit 2,  
8 and it is received into evidence.

9 (Exhibit No. 2 was marked and admitted  
10 into evidence.)

11 CHAIRMAN JAGDMANN: There is an agreed  
12 upon order of presentation for this case that we will  
13 follow. For any witnesses whose testimony has been  
14 stipulated, we will place such witness' testimony into  
15 evidence when that witness would otherwise testify  
16 verbally.

17 We will now have brief opening  
18 statements.

19 MS. RYAN: Thank you, Your Honor.

20 Good morning. May it please the  
21 Commission, Elaine Ryan, on behalf of the Applicant.

22 As presented in the May 4th application,  
23 the accompanying direct testimony, Virginia Electric  
24 and Power Company is seeking to revise its fuel factor  
25 pursuant to Code Section 56-249.6 effective for usage

on or after July 1, 2017.

For the upcoming fuel period, the Company's requesting a proposed fuel rate of 2.383 cents per kWh. This rate consists of a current period rate and a prior period rate. The current period rate is designed to recover projected Virginia jurisdictional fuel expenses, including purchased power expenses of approximately 1.8 billion, while the prior period rate is designed to recover the Company's projected June 30, 2017, fuel deferral balance which is approximately 27.6 million.

So the proposed fuel rate of 2.383 cents reflects an increase of 0.412 cents per kWh from the previous approved fuel factor.

The main factors underlying the need to change the fuel rate in this proceeding are addressed in the testimony of Company Witnesses Corynne Arnett and Glenn Kelly. And as they testify, the Company experienced an under-recovery during the 2016-2017 fuel year that was primarily due to higher-than-expected commodity prices.

In addition, the Company's projected system fuel expenses and purchase power expense for the 2017 to 2018 fuel year is higher than forecasted in the prior fuel year. And this is primarily due to

1 increases in commodity prices for natural gas, coal,  
2 and oil.

3 While this rate does reflect an increase  
4 from the fuel rate approved in the Company's last fuel  
5 rate proceeding, the proposed rate is lower than the  
6 approved July 2015 rate, which was 2.406 cents for  
7 kWh, and also lower than the approved July 14 fuel  
8 rate of 3.018 cents.

9 As Your Honor noted, four witnesses  
10 filed -- for respondents filed notices of  
11 participation in this proceeding, and that includes  
12 the Office of Attorney General's Division of Consumer  
13 Counsel, the Virginia Committee for Fair Utility  
14 Rates, the Appalachian Voices, referred to as  
15 Environmental Respondents, and the Board of  
16 Supervisors of Culpeper County. None of the  
17 respondents filed testimony.

18 As directed by the Commission, the  
19 Commission Staff investigated the Company's  
20 application and filed its report on June 7. In its  
21 report, Staff does not oppose the Company's estimates  
22 of energy sales and fuel prices for the purpose of  
23 supporting the proposed fuel rate, as Staff Witness  
24 Eichenlaub concludes.

25 And in addition, Staff Witness Gravely

1 concludes that the Company's projected fuel expenses  
2 and the underlying assumptions are reasonable and  
3 consistent with the Company's definitional framework.

4           Given the Staff's finding, the Company  
5 filed a letter in lieu of rebuttal on June 8  
6 indicating its support for the findings in the Staff  
7 report.

8           As noted, the Company and Staff are the  
9 only two parties that have prefiled testimony, and  
10 there are no issues in dispute between them. The  
11 Company and Staff and all parties to the proceeding,  
12 with the exception of the Environmental Respondents,  
13 have agreed to stipulate to the admission of the  
14 direct testimony of all Company and Staff witnesses  
15 without cross.

16           We understand that the Environmental  
17 Respondents have questions for three company  
18 witnesses, and those are Corynne Arnett, Glenn Kelly,  
19 and Greg Workman.

20           As noted, the Environmental Respondents  
21 did not file any testimony in this case; and, of  
22 course, it remains to be seen what issues they intend  
23 to pursue today, but we would note for the Commission  
24 during the course of discovery, some questions were  
25 raised by the Environmental Respondents concerning

natural gas transportation and the Atlanta Coast Pipeline project, in particular.

As the Company's made clear in its responses, no costs associated with the ACP are being requested for recovery from customers in this case. And the project is under development and currently under review by FERC.

For these reasons, the Company believes that these matters are beyond the scope of this particular proceeding which is to set a fuel rate for the upcoming fuel year. And to the extent they are pursued, we will make objections as appropriate. But in any event, we are prepared to call these witnesses.

In conclusion, Your Honors, the Company respectfully requests the Commission approve the proposed fuel rate of 2.383 cents per kWh for the July 1, 2017, through June 30, 2018, fuel year.

Thank you.

MR. CLEVELAND: Good morning, Your Honors. May it please the Commission, again my name is Will Cleveland, from the Southern Environmental Law Center. Along with my colleague, Greg Buppert, we represent Appalachian Voices, the Environmental Respondents.

If we learn nothing else from this year's

1 filing, it's that natural gas markets are still  
2 volatile with potential to drive up costs for average  
3 Virginia electric customers. In fact, the Company's  
4 filing in this case projects a \$4.12 increase per  
5 month for an average thousand kilowatt-hour  
6 residential customer. For large customers, obviously  
7 the increase in monthly bills is much greater. Market  
8 volatility and increased prices only highlight the  
9 Environmental Respondents' concerns with the Company's  
10 fuel procurement methods. Today we'd like to focus on  
11 one.

12 As we all know, Dominion Energy, along  
13 with Duke Energy and the Southern Company, owns a  
14 significant stake in the Atlantic Coast Pipeline, LLC,  
15 which has petitioned the Federal Energy Regulatory  
16 Commission for permission to build a 600-mile pipeline  
17 from West Virginia, through Virginia, and down into  
18 North Carolina.

19 A separate Dominion-owned company,  
20 Dominion Power Services Energy Corp, has signed a  
21 contract with Atlantic Coast Pipeline, LLC to reserve  
22 300,000 dekatherms per day, a firm capacity on the  
23 Atlantic Coast Pipeline.

24 Atlantic Coast Pipeline, LLC has signed  
25 similar agreements with Duke and with the Southern

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1 to preview the evidence in the case that will be  
2 presented, and none of this is in the record.

3 As Ms. Ryan said, there are no costs  
4 related to the ACP that are being sought for recovery  
5 in this case. This is a project under FERC  
6 jurisdiction which has not even been certificated by  
7 the FERC. I appreciate the Environmentalist's  
8 concerns about the project, but this is simply not the  
9 correct forum to be making a speech about the ACP.

10 MR. CLEVELAND: There are specific facts  
11 that we will show in evidence that do not relate  
12 specifically to the ACP but about the Company's  
13 practices in general relating to their existing  
14 operations. And I'll address those now if you'd like.

15 CHAIRMAN JAGDMANN: Yeah, well, let's  
16 stick to those and wrap it up then.

17 MR. CLEVELAND: As the evidence we will  
18 show makes clear, there's not a single natural gas  
19 power plant operating today that needs additional  
20 capacity. The Company has firm pipeline capacity  
21 commitments already, which we will show.

22 CHAIRMAN JAGDMANN: Is that an issue  
23 today? Let's stick with what's an issue in this case.

24 MR. CLEVELAND: The issue, Your Honor, is  
25 that the Company has firm capacity pipeline contracts



1 that it passes on to its customers regardless of  
2 whether the Company uses those.

3 CHAIRMAN JAGDMANN: And have they -- is  
4 it an issue? The pipeline capacity that you're  
5 talking about, is it an issue in this case or is it  
6 for a future case?

7 MR. CLEVELAND: It's a cost that they are  
8 recovering in this case, Your Honor.

9 CHAIRMAN JAGDMANN: Okay.

10 MR. CLEVELAND: But as you said, you'd  
11 like me to wrap it up.

12                   The point is that we'd ask the Commission  
13   to identify which is the proper proceeding for us to  
14   address these issues. The Company has said that we  
15   can't do it at FERC, they don't want FERC to look at  
16   this; they say we can't do it in an Affiliates Act  
17   case, they have objected and asked the Commission to  
18   throw that out; we can't do it in IRP because that's  
19   not a time when the Commission actually approves any  
20   particular project.

21                   What we'd like to know from the  
22 Commission today is when is it appropriate for us to  
23 review the fact that the Company has committed its  
24 ratepayers to paying for capacity without ever  
25 actually evaluating whether we need that capacity on

1 the Atlantic Coast Pipeline.

2 Thank you very much.

3 CHAIRMAN JAGDMANN: Thank you.

4 MR. MONACELL: Good morning again. May  
5 it please the Commission, the Committee is not  
6 presenting any witnesses in this case; however, as we  
7 see it, Environmental Respondents have raised an issue  
8 of consequence that the Commission should consider;  
9 that is, what proceeding and when should the  
10 Commission address the reasonableness of requiring  
11 Dominion Energy's captive customers to pay its fixed  
12 pipeline capacity costs related to the ACP.

13 In this proceeding, the Committee will  
14 take no position on the reasonableness of building the  
15 ACP or on the reasonableness of Dominion Energy's  
16 charging jurisdictional customers for ACP-related  
17 fixed capacity costs in the future.

18 However, the record will show, we  
19 believe, that according to Dominion -- and I think we  
20 heard some of this in Dominion's opening statement --  
21 that the Commission should not address the  
22 reasonableness of captive customers paying such cost,  
23 the cost of the ACP, until the first fuel factor case  
24 in which it seeks to collect them. Such a fuel case,  
25 however, may not be the best proceeding for the

1 Commission to address the issue.

2 We understand that Dominion's affiliate,  
3 Virginia Power Energy Services, or VPSE, already has  
4 entered into a 20-year agreement with another  
5 affiliate, Atlantic Coast Pipeline, LLC, or ACP, to  
6 acquire pipeline capacity for transportation of gas to  
7 Dominion Energy's gas-fired generating units, thus  
8 Dominion Energy may wind up paying VPSE and seeking to  
9 pass through its -- to its captive jurisdictional  
10 customers significant fixed capacity costs over a long  
11 period.

12 Whether it's reasonable for an affiliate  
13 agreement or an arrangement to require Dominion's  
14 customers to pay such cost does not appear to be an  
15 issue that should remain unaddressed for some years  
16 after considerable costs may have been accumulated,  
17 nor does an issue of such potential complexity and  
18 customer impacts seem to be very well suited to  
19 consider in a fuel factor proceeding which, as the  
20 Commission knows, is typically decided within a  
21 relatively short period of time. Instead, it appears  
22 that a proceeding under the Affiliates Act may be  
23 preferable.

24 The Committee -- the Commission, of  
25 course, has continuing jurisdiction under the act over

1 utility affiliate contracts and arrangements. So even  
2 though the Commission may have approved most recently  
3 in 2014 the Dominion VPSE fuel management agreement  
4 and other affiliate agreements, it may still assess --  
5 the Commission may still assess the reasonableness in  
6 view of the ACP pipeline capacity costs that VPSE  
7 presumably will seek to pass on to Dominion Energy in  
8 the future.

9           Given the significance of this issue for  
10 future natural gas capacity costs, it seems, at least  
11 at this time, that the Commission could and should  
12 take up the issue in a separate Affiliates Act  
13 proceeding.

14           That concludes my opening.

15           COMMISSIONER CHRISTIE: Can I ask you a  
16 question, Mr. Monacell?

17           MR. MONACELL: Yes.

18           COMMISSIONER CHRISTIE: Is your client  
19 opposed to the pipeline?

20           MR. MONACELL: Absolutely not.

21           COMMISSIONER CHRISTIE: So your concern  
22 then is on the capacity costs getting flowed through  
23 the fuel factor?

24           MR. MONACELL: The captive customers,  
25 yes. Thank you.



1 most recent year's fuel factor.

2 We hope that fuel and wholesale power  
3 costs will continue to remain relatively low to help  
4 offset the higher cost to ratepayers from the  
5 Company's frozen base rates in its nine different rate  
6 adjustment clauses.

7 Finally, and very briefly, with respect  
8 to the issues referenced by Mr. Cleveland and  
9 Mr. Monacell, I would simply note that Consumer  
10 Counsel has always supported the exercise of this  
11 Commission's broad authority under Chapter 4 of  
12 Title 56 to ensure that captive ratepayers are not  
13 taken advantage of by intercompany affiliate  
14 transactions and arrangements.

15 Thank you.

16 MS. KLAIBER: Good morning, Your Honors.  
17 May it please the Commission, I, Alisson Klaiber,  
18 along with Fred Ochsenhirt, represent the Staff in  
19 this proceeding.

20 And as directed by the Commission, the  
21 Staff investigated the Company's fuel factor  
22 application and filed its testimony and exhibits on  
23 June 7, 2017.

24 Specifically, staff filed the testimony  
25 of Mr. David R. Eichenlaub, who investigated the

1 Company's load and fuel forecast in wholesale market  
2 energy price forecast. Mr. Eichenlaub found that the  
3 Company's models and methodologies used to prepare  
4 forecasting models and prepare these forecasts are  
5 sound and appropriate.

6 He found that in the present fuel factor  
7 proceeding, the Company complied with the standards  
8 set by the Commission for evaluating fuel cost  
9 projections of electric utilities. Thus, in this  
10 case, Staff does not oppose the Company's proposed  
11 estimates of energy sales and fuel prices for the  
12 purpose of supporting the proposed fuel factor.

13 Staff also filed the testimony of  
14 Ms. Kelli B. Gravely, who investigated the Company's  
15 generating unit performance, power purchases,  
16 off-system power sales, and other system parameters.  
17 Ms. Gravely found that the data provided by Dominion  
18 as part of its forecast for future unit operation is  
19 reasonable and compares favorably with historical  
20 performance. The Company's projected fuel expenses  
21 and the underlying assumptions are reasonable for  
22 purposes of this fuel factor proceeding; and the fuel  
23 factor as a whole proposed by the Company appears  
24 reasonable.

25 Thank you very much.

1 CHAIRMAN JAGDMANN: Thank you.

2 Okay. You may begin your case.

3 MR. REID: Thank you, Your Honor. The  
4 Company calls Corynne S. Arnett.

5 CORYNNE S. ARNETT, called as a witness,  
6 having been first duly sworn, was examined and  
7 testified as follows:

8 DIRECT EXAMINATION

9 BY MR. REID:

10 Q. Good morning. Could you give us your  
11 name, position of employment, and business address,  
12 please?

13 A. Yes. Good morning. My name is Corynne  
14 Arnett. I'm vice president of financial management  
15 with Dominion Energy. My work address is 120 Tredegar  
16 Street, Richmond, Virginia 23219.

17 Q. Ms. Arnett, do you have a document with  
18 you entitled, direct testimony of Corynne S. Arnett,  
19 consisting of a one-page witness direct testimony  
20 summary, six typed pages of questions and answers, and  
21 an Appendix A which was filed in a public version only  
22 in this proceeding on May 4th of this year?

23 A. Yes, I do.

24 Q. And was that document prepared by you or  
25 under your supervision?



1 A. Yes, it was.

2 Q. Do you have any changes or corrections to  
3 that document?

4 A. No, I don't.

5 Q. And if I were to ask you the questions  
6 appearing in that document here today, would you  
7 provide the same or substantially the same answers?

8 A. Yes, I would.

9 Q. And do you wish to sponsor that document  
10 as your direct testimony?

11 A. Yes.

12 MR. REID: Your Honor, I'd ask that  
13 Ms. Arnett's direct testimony in public version only  
14 be identified and admitted into the record, subject to  
15 cross-examination.

16 CHAIRMAN JAGDMANN: Arnett direct is  
17 marked as Exhibit 3 and received into evidence,  
18 subject to cross.

19 (Exhibit No. 3 was marked and admitted  
20 into evidence.)

21 MR. REID: Thank you, Your Honor. And at  
22 this time, the witness is available for  
23 cross-examination.

24 MR. BUPPERT: The Environmental  
25 Respondents have no question for this witness, Your

1 Honor.

2 MR. MONACELL: Your Honor, we have a few  
3 questions.

4 CHAIRMAN JAGDMANN: Okay.

5 MR. MONACELL: Your Honor, I'd like to  
6 have a document handed to the witness; and I have  
7 copies for the Commissioners as well.

8 CHAIRMAN JAGDMANN: Would you like this  
9 document marked and received into evidence?

10 MR. MONACELL: Yes.

11 CHAIRMAN JAGDMANN: Okay. We'll go ahead  
12 and do that. Environmental Respondents' second set,  
13 first question is marked as Exhibit 4 and received  
14 into evidence.

15 (Exhibit No. 4 was marked and admitted  
16 into evidence.)

17 MR. MONACELL: Thank you, Your Honor.

18 CROSS-EXAMINATION

19 BY MR. MONACELL:

20 Q. Good morning, Ms. Arnett.

21 A. Good morning.

22 Q. So you have before you what's been marked  
23 as Exhibit 3?

24 A. I do.

25 Q. Yes. And do you recognize this as being

1 the response by Dale Hinson to Environmental  
2 Respondents, question 2-1?

3 A. I do, yes.

4 Q. Okay. So would you read the response?  
5 It's relatively short?

6 A. Under the affiliate fuel procurement  
7 structure most recently approved by the Commission in  
8 Case Number PUE-2014-00062, Virginia Power Services  
9 Energy Corp, Inc., VPSE, is the entity that contracts  
10 with third parties for firm transportation services.  
11 Under the fuel management agreement, most  
12 recently approved by the Commission in Case Number  
13 PUE-2014-00062, the Company pays VPSE for the actual  
14 cost that VPSE incurs in providing fuel procurement  
15 and related risk management services. These costs are  
16 fully reviewed by the Commission and the Commission  
17 Staff for reasonableness and prudence in the Company's  
18 annual fuel factor case pursuant to Virginia Code  
19 Section 56-249.6.

20 Regarding the Transco/Brunswick contract  
21 referenced in this request, the entire amount is paid  
22 regardless of usage based on the negotiated rate  
23 according to the terms of the contract. As noted in  
24 the response to question number nine of VCFUR, second  
25 set, the Company can release excess firm pipe lane

1 transportation capacity with such releases credited to  
2 customers in the Company's fuel factor and subject to  
3 true-up.

4 As indicated in the preceding paragraph,  
5 this amount would be billed to the Company and  
6 reviewed by the Commission and the Staff in a fuel  
7 factor proceeding where the Company's proposed fuel  
8 rate included this amount.

9 Q. Thank you. Are you generally familiar  
10 with the facts that are stated in the response?

11 A. Yes.

12 Q. Okay. So this contract was entered into  
13 by VPSE with Transco, correct?

14 A. I believe so, yes.

15 Q. And that is referred sometimes to -- as  
16 the Virginia Southside Expansion Project; is that  
17 right?

18 A. That I don't know.

19 Q. Oh, okay. So under the fuel management  
20 agreement referred to -- approved by the Commission in  
21 2014, the Company would pay VPSE for the cost VPSE  
22 incurs pursuant to this contract, correct?

23 A. Yes.

24 Q. Okay. So is it the Company's position  
25 that the first time that the Commission would review

1 the reasonableness of the Company paying these costs  
2 would be the first fuel factor case in which the  
3 Company sought to collect those costs through its fuel  
4 factor?

5 | A. I believe so, yes.

6 Q. Okay. And then in the next fuel factor  
7 case, would the Commission be asked to review the  
8 reasonableness of the cost of this contract in that  
9 case?

10           A.       When the costs are part of the fuel case  
11   at issue, it is the time that those costs are  
12   reviewed.

13 Q. Okay. So if it's a 20-year contract,  
14 does that mean the Commission would review the cost in  
15 20 different fuel factor cases?

16 A. I believe so, yes.

17 Q. Okay. So in the first case in which the  
18 Company sought to collect the cost, the Company would  
19 not be presenting the cost over 20 years; it would be  
20 presenting the cost that would be collected in that  
21 years fuel factor; is that correct?

22           A.       In the fuel proceeding, yes, it would be  
23       the costs subject to true-up plus the projected year's  
24       costs.

25 Q. Okay. And would the Company in that

1 first fuel factor case also be presenting the costs  
 2 that the Company would incur if it were to use  
 3 alternative transportation arrangements?

4 A. Help me understand what you mean by that.

5 Q. If there -- if the capacity for the --  
 6 this Transco contract, which is referred to in  
 7 discovery response says the Transco/Brunswick  
 8 contract, if the alternative transportation  
 9 arrangements for the Company to get the gas to its  
 10 generating unit, say Brunswick, would the Company  
 11 present in its first fuel factor case in which it  
 12 seeks to collect the cost of the Transco/Brunswick  
 13 contract its alternative cost if it were to bring the  
 14 gas in some other means?

15 A. Well, I believe that the fuel contracts  
 16 related to Brunswick and Greenville are also reviewed  
 17 as part of the Rider case when the full life of that  
 18 facility is looked at and approved.

19 Q. Do you know whether the Commission  
 20 approved the Transco/Brunswick 20-year contract in the  
 21 Brunswick CPCN case?

22 A. I am not able to answer that. I don't  
 23 know, I'm sorry.

24 Q. Okay. Thank you.

25 Now, VPSE has also entered into a 20-year

1 contract with the ACP; is that correct?

2 MR. REID: Objection, Your Honor;  
3 relevance for the reasons that I stated. And during  
4 the Environmental Respondents opening statement, the  
5 ACP is simply not an issue in this case, and no costs  
6 related to ACP are sought for recovery in this case.

7 CHAIRMAN JAGDMANN: Mr. Monacell.

8 MR. MONACELL: Your Honor, we believe it  
9 is an issue of importance for the Commission, for the  
10 Commission to be deciding, and which type of case is  
11 it going to be reviewing, the reasonableness of  
12 captive customers paying the cost of the ACP; will it  
13 be in this fuel factor case, in a future fuel factor  
14 case, in multiple fuel factor cases over 20 years, in  
15 the IRP case or in an Affiliates Act case?

16 We are seeking to present evidence that  
17 the -- it looks like the best proceeding to do so  
18 would be in Affiliates Act case.

19 CHAIRMAN JAGDMANN: Has anybody filed any  
20 testimony on this issue prior to right now in this  
21 case?

22 MR. MONACELL: No, no, Your Honor.

23 CHAIRMAN JAGDMANN: So -- and I believe  
24 you, yourself, mentioned you think a separate  
25 proceeding would be best, somewhat acknowledging, I

1 believe, that there are some relevance issues in this  
2 proceeding?

3 MR. MONACELL: We do not concede that  
4 there's a relevance issue. We understand the Company  
5 maintains that there is.

6 CHAIRMAN JAGDMANN: But you believe it is  
7 relevant in this proceeding?

8 MR. MONACELL: Yes, because there is  
9 evidence, as you just heard, as to how the Company  
10 proposes to have cost of a 20-year upstream capacity  
11 contract reviewed by the Commission; and it appears  
12 clear that their proposal is that it would be done  
13 year by year in the fuel factor cases.

14 And what we're seeking to establish is  
15 whether that's the same procedure that they are  
16 proposing for the ACP cost to be reviewed by the  
17 Commission.

18 CHAIRMAN JAGDMANN: But you filed no  
19 testimony in this case and no one has raised this  
20 issue in written prefiled testimony?

21 MR. MONACELL: That's correct.

22 CHAIRMAN JAGDMANN: Okay. I'll allow you  
23 to ask just a general question or two. We understand  
24 your position, and then we'll move on.

25 MR. MONACELL: Okay. Thank you.



1 MR. BUPPERT: Your Honor, if I may,  
 2 Environmental Respondents also feel that this is a  
 3 relevant issue. The question that's before the  
 4 Commission, we think, is when is the proper time for  
 5 these issues to be addressed?

6 And we think that should happen before  
 7 there's an investment in this project, the project is  
 8 built, and then the costs are passed through the  
 9 ratepayers. So we would support our colleague's  
 10 request for relevance.

11 CHAIRMAN JAGDMANN: You two have filed no  
 12 testimony on this issue prior to this moment?

13 MR. BUPPERT: That's right.

14 MR. CLEVELAND: Your Honor, that's  
 15 correct, but with respect to the Atlantic Coast  
 16 Pipeline, in our discovery regarding that the Company  
 17 has refused to provide any information that we could  
 18 have even included in such testimony on the grounds of  
 19 relevance. And we didn't even get our most recent  
 20 discovery responses back until Monday of this week,  
 21 which did not leave us enough time to engage in a  
 22 discovery dispute with the Company about that on the  
 23 relevance issues.

24 CHAIRMAN JAGDMANN: But no motion has  
 25 been filed in that regard?



1 jurisdiction under a number of different statutory  
2 provisions and constitutional provisions, and we think  
3 it's relevant for the Commission to be considering,  
4 and we think it's a issue of consequence as to how the  
5 Commission is going to be reviewing the reasonableness  
6 of captive customers paying the cost of 20-year --

7 COMMISSIONER CHRISTIE: Well, you can  
8 seek a declaratory judgment, or if you just want the  
9 answer to a question -- I mean, we don't typically  
10 give hypothetical answers to hypothetical questions,  
11 but if you wanted -- but you can seek a declaratory  
12 judgment if you think there's a question that, you  
13 know, is not relevant to this case because this case  
14 is about whether the fuel costs are reasonable and  
15 prudent that they have asked for, not that they might  
16 ask for 20 years from now.

17 But you can seek other -- if you think  
18 it's a question that hasn't been answered, then  
19 there's other avenues available under our rules to  
20 seek answers to questions.

21 MR. MONACELL: We concede that.

22 MR. REID: Your Honor, could I just  
23 clarify one point? The discovery that was served in  
24 this case was all timely responded to by the Company.

25 And, you know, as Judge Christie just

1 indicated, if the issue that Mr. Monacell and the  
2 Environmental Respondents are raising here is we think  
3 at some point the Commission should sound in on this  
4 issue, there are available means for that to be  
5 addressed by the Commission. And, in fact, there is a  
6 petition for a declaratory judgment currently pending  
7 before the Commission as to that precise issue, but it  
8 is simply not an issue with respect to the recovery of  
9 fuel costs for the 2017-2018 fuel year.

10 CHAIRMAN JAGDMANN: Mr. Reid, I'll take  
11 your motion under advisement.

12 I'll grant you a little leeway to ask a  
13 question or two. You made your point, we understand  
14 where you're coming from.

15 MR. MONACELL: Thank you. I'll be very  
16 brief.

17 I'd like to hand up another document to  
18 the witness. Your Honor, this is nine pages of  
19 responses.

20 CHAIRMAN JAGDMANN: This is Environmental  
21 Respondents' second set, third question. It will be  
22 marked as Exhibit 5 and received into evidence.

23 MR. MONACELL: Your Honor, it also  
24 includes within the nine pages responses to 2-8, 2-9,  
25 2-10, 2-11, 2-12, and 2-19.

1 CHAIRMAN JAGDMANN: So it's 2-3 and 2-8  
2 through what?

3 MR. MONACELL: Eight, nine, ten, 11, 12,  
4 and then 19.

5 CHAIRMAN JAGDMANN: Okay. Collectively,  
6 they will be marked as Exhibit 5.

7 MR. REID: Your Honor, I know it's been  
8 admitted, but, please, note the Company's objection on  
9 relevance grounds to this exhibit.

10 CHAIRMAN JAGDMANN: Okay. The Company's  
11 objection to relevance is noted. And we'll take it  
12 under advisement, so it is not in evidence. Exhibit 5  
13 is marked, and we'll -- whether or not it will be  
14 received into evidence, we will take it under  
15 advisement and we'll go ahead and take testimony and  
16 cross.

17 (Exhibit No. 5 was marked for  
18 identification.)

19 MR. REID: Thank you, Your Honor.

20 MR. CLEVELAND: Your Honor, I apologize.  
21 Was Exhibit 4 already entered into evidence?

22 CHAIRMAN JAGDMANN: It was.

23 MR. CLEVELAND: Thank you.

24 MR. MONACELL: I think the one that was  
25 introduced was Exhibit 3.

1 MR. OCHSENHIRT: No. It's four, Louis.

2 MR. MONACELL: Oh, it's four?

3 MR. OCHSENHIRT: Three is the direct  
4 testimony.

5 MR. MONACELL: Okay. I'm sorry.

6 CHAIRMAN JAGDMANN: Thank you,  
7 Mr. Ochsenhirt.

8 MR. OCHSENHIRT: You're welcome.

9 BY MR. MONACELL:

10 Q. Ms. Arnett, do you recognize Exhibit 5 as  
11 being several of the Company's responses to  
12 Environmental Respondents' discovery request?

13 A. Yes.

14 Q. And do you recognize it as being  
15 responses to two, three, eight, nine, ten, 11, 12, and  
16 19?

17 A. Yes.

18 MR. MONACELL: Okay. I have no further  
19 questions.

20 CHAIRMAN JAGDMANN: Okay. Thank you.  
21 Mr. Browder?

22 MR. BROWDER: No questions, Your Honor.

23 MS. KLAIBER: Your Honor, the Staff has  
24 no questions.

25 MR. REID: No redirect, Your Honor.

1 CHAIRMAN JAGDMANN: Thank you. The  
2 witness is excused.

3 THE WITNESS: Thank you.

4 CHAIRMAN JAGDMANN: Uh-huh.

5 MS. RYAN: Your Honor, the next witness  
6 in the Company's direct case is Robert G. Thomas, who  
7 has been stipulated by all parties.

8 Do you want to go ahead and enter his in?

9 CHAIRMAN JAGDMANN: Yes.

10 MS. RYAN: The direct testimony of  
11 Robert G. Thomas, consisting of a one-page direct  
12 testimony summary, five typed pages of questions and  
13 answers, Appendix A, and three schedules which is  
14 filed in public version only on May 4th.

15 CHAIRMAN JAGDMANN: Okay. Thomas direct  
16 is marked as Exhibit 6 and received into evidence.

17 (Exhibit No. 6 was marked and admitted  
18 into evidence.)

19 MS. RYAN: And, Your Honor, the Company  
20 calls Glenn Kelly.

21 GLENN A. KELLY, called as a witness,  
22 having been first duly sworn, was examined and  
23 testified as follows:

24 DIRECT EXAMINATION

25 BY MS. RYAN:

1 Q. Good morning, Mr. Kelly.

2 A. Good morning.

3 Q. Can you, please, state your name and  
 4 business address for the record and position of  
 5 employment.

6 A. Glenn Kelly, director of generation  
 7 system planning, Dominion Energy, 5000 Dominion  
 8 Boulevard, Glen Allen, Virginia.

9 Q. And do you have with you a document  
 10 entitled, direct testimony of Glenn A. Kelly,  
 11 consisting of a one-page summary, ten typed pages of  
 12 questions and answers, and Appendix A, 15 schedules,  
 13 which is filed in both public and confidential  
 14 versions, on May 4, 2017?

15 A. Yes.

16 Q. And was that document prepared by you or  
 17 under your supervision?

18 A. Yes, it was.

19 Q. Do you have any corrections or additions  
 20 to that document?

21 A. No, I do not.

22 Q. If you were asked the questions appearing  
 23 in that document, would you provide the same or  
 24 substantially the same answers today?

25 A. Yes, I would.



1 Q. And do you wish to sponsor that document  
2 as your direct testimony in this proceeding?

3 A. Yes.

4 MS. RYAN: And I'd ask that this document  
5 be marked for identification; and there is a public  
6 and confidential version.

7 CHAIRMAN JAGDMANN: Kelly direct is  
8 marked as 7 and 7C and received into evidence, subject  
9 to cross-examination.

10 (Exhibit No. 7 was marked and admitted  
11 into evidence.)

12 (Confidential Exhibit No. 7C was marked  
13 and admitted into evidence.)

14 MS. RYAN: Thank you. And the witness is  
15 available for cross-examination.

16 CHAIRMAN JAGDMANN: Environmental  
17 Respondents?

18 MR. BUPPERT: Your Honor, we have a few  
19 questions for cross-examination.

20 CHAIRMAN JAGDMANN: Okay.

21 CROSS-EXAMINATION

22 BY MR. BUPPERT:

23 Q. Mr. Kelly, good morning. My name is Greg  
24 Buppert.

25 A. Good morning.

1 Q. On page eight of your testimony, you  
2 state that system gas fuel expense includes natural  
3 gas storage and pipeline transportation expenses and  
4 contract costs.

5 I want to ask you a few questions about  
6 those costs and those contracts.

7 Isn't it true that system gas fuel  
8 expenses --

9 COMMISSIONER CHRISTIE: What line are you  
10 on, Mr. Buppert?

11 MR. BUPPERT: Excuse me?

12 COMMISSIONER CHRISTIE: I know you're on  
13 page eight. What line?

14 MR. BUPPERT: You know, I don't have the  
15 line identified --

16 MR. MONACELL: Your Honor, I believe it's  
17 15 to 17.

18 COMMISSIONER CHRISTIE: Okay. I see it.  
19 It is 15 to 17.

20 BY MR. BUPPERT:

21 Q. So my first question is about pipeline  
22 transportation expenses and contract costs.

23 Isn't it true that those costs, pipeline  
24 transportation expenses and contract costs, include  
25 the costs of contracts for firm pipeline capacity?

1 | A. Yes, it is.

2 Q. Isn't it also true that the fuel factor  
3 that the Commission is reviewing in this proceeding  
4 and reviews each year includes the costs of contracts  
5 for firm pipeline capacity?

6 | A. Yes, it is.

7 Q. Would you agree that the fuel factor is a  
8 component of Dominion ratepayer bills?

9 | A. Yes, it is.

10 Q. So if firm pipeline capacity is a part --  
11 for those contracts are part of the fuel factor and  
12 the fuel factor is part of Dominion customer bills,  
13 would you agree with the statement that Dominion  
14 ratepayers pay the cost of firm pipeline capacity?

15 | A. Current costs, yes, I would.

16 Q. Isn't it also true that this Commission  
17 has not reviewed individual contracts for firm  
18 pipeline capacity, the costs of which are incorporated  
19 into the fuel factor?

20           A.           No, that is not true. We are subject to  
21 both audits. And when we do a CPCN hearing for new  
22 generation, those costs are included in and under  
23 inspection or review by the Commission and all other  
24 interveners.

25 Q. So I'm going to ask you my question again

1 and I'm going to refer specifically to the  
2 Transco/Brunswick contract.

3 Has -- isn't it true that this Commission  
4 hasn't reviewed the terms of the Transco -- the  
5 contract that provides gas to the Brunswick facility  
6 for firm pipeline capacity on the Transco Pipeline?

7 A. The Staff has seen that contract. I am  
8 not sure if it was ever entered into evidence in the  
9 CPCN hearing for Brunswick, but there was an  
10 opportunity for any of the interveners to provide that  
11 in that case. So I can't answer it directly, but  
12 there was certainly opportunity to.

13 Q. Mr. Kelly, I want to refer to question  
14 number 2-1 and the Environmental Respondents' second  
15 set of discovery. This question has already been read  
16 into the record by Ms. Arnett, and I'll just put it on  
17 the screen so we all -- so it's available for everyone  
18 to see.

19 You'll recall that the second part of the  
20 question is about the Transco/Brunswick contract; and  
21 on page two of the answer, Ms. Arnett read and the  
22 response read regarding the Transco/Brunswick contract  
23 referenced in this request, the entire amount is paid  
24 regardless of usage based on the negotiated rate  
25 according to the terms of the contract.



1 introduced into evidence, so I would ask that it be  
2 introduced now.

3 CHAIRMAN JAGDMANN: Okay.

4 MR. BUPPERT: And I have copies for the  
5 Commission.

6 CHAIRMAN JAGDMANN: This is Environmental  
7 Respondents' question 2-18, question and answer.

8 MR. BUPPERT: 2-18, yes.

9 CHAIRMAN JAGDMANN: It's marked as  
10 Exhibit 8.

11 (Exhibit No. 8 was marked for  
12 identification.)

13 CHAIRMAN JAGDMANN: Is there any  
14 objection?

15 MR. REID: Object to the relevance.  
16 Again, Your Honor, this is an ACP-related discovery  
17 request, so we would object to the relevance.

18 And the prior line of questioning on the  
19 southside lateral, the Company concedes that there are  
20 costs related to the southside lateral included in the  
21 fuel factor in this case, but no party has objected to  
22 those costs; the Environmental Respondents have not  
23 said they are imprudent, so I'm just not sure where  
24 we're going with all this.

25 CHAIRMAN JAGDMANN: Okay. We will hold

1 its relevance under advisement at this time.

2 MR. BUPPERT: Thank you, Your Honor.

3 BY MR. BUPPERT:

4 Q. And my question is about 2-18A which does  
5 not concern the Atlantic Coast Pipeline.

6 Mr. Kelly, the question in 2-18 is as  
7 follows: The Company purchases firm transportation  
8 capacity to ensure that a reliable supply of natural  
9 gas is available at all times in order to provide  
10 reliable electric service to its customers.  
11 Therefore, the fixed gas expenses are not dependent on  
12 the amount of gas used or the amount of electricity  
13 produced at the Company's gas-fired generation units.

14 That was a statement from the Company.

15 The question in "A" is, please, explain  
16 whether the Company recovers the costs of these firms  
17 transportation agreements, contracts from its  
18 jurisdictional customers regardless of the amount of  
19 gas used or the amount of electricity produced at the  
20 Company's gas fired units.

21 And the response, the Company's response  
22 in "A" is, see the response to question number 2-1 of  
23 this set. And that was the question we just talked  
24 about.

25 And so my question to you is, based on

1 the answer to question 2-18 which refers to the answer  
 2 the Company provided about the Brunswick -- the  
 3 Transco/Brunswick contract, would you agree that  
 4 Dominion ratepayers pay for firm pipeline capacity to  
 5 serve all of the Company's facilities even if that  
 6 capacity is not used?

7 A. Yes. To be clear, firm transportation  
 8 costs are fixed costs; we buy those for particular  
 9 times of the year, normally the winter, so the winter  
 10 we particularly need them.

11 Similar to a CT in the capacity market,  
 12 we only need it on peak days. Firm gas transmission  
 13 is bought for those peak days. There's other days,  
 14 many of them during the year, that we may not need  
 15 that firm gas transmission, but customers still do pay  
 16 for that because they want their lights on during peak  
 17 days.

18 MR. BUPPERT: And so members of the  
 19 Commission, I have a question about the -- final  
 20 question about the Atlantic Coast Pipeline. Like  
 21 Mr. Monacell, we share the concern that captive  
 22 ratepayers will be on the hook for expenses related to  
 23 that pipeline, and that according to the testimony  
 24 from the Company, that issue won't come before the  
 25 Commission until that project is built, so I would ask



1 that I be allowed to ask that question. It's a single  
2 question regarding that pipeline.

3 CHAIRMAN JAGDMANN: We'll hear it and  
4 then we'll decide.

5 BY MR. BUPPERT:

6 Q. Okay. Mr. Kelly, isn't it true that the  
7 Company will also recover, using the mechanism you've  
8 just explained, the costs of contracts for firm  
9 pipeline capacity on the Atlantic Coast Pipeline  
10 regardless of whether that capacity is used for power  
11 generation?

12 MS. RYAN: And, Your Honor, we would  
13 object again for the same basis that we have stated  
14 previously for relevance.

15 CHAIRMAN JAGDMANN: Mr. Kelly, would this  
16 pipeline capacity -- would all pipeline capacity be  
17 treated the same --

18 THE WITNESS: All --

19 CHAIRMAN JAGDMANN: -- with respect to  
20 that issue?

21 THE WITNESS: All future and pipeline  
22 fixed costs, like capacity costs, will be treated the  
23 same, and those costs would go through the appropriate  
24 fuel case once the pipeline is built or under  
25 construction.