

## City of Alexandria, Virginia

15  
10-14-03

## MEMORANDUM

DATE: OCTOBER 9, 2003

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: PHILIP SUNDERLAND, CITY MANAGER

SUBJECT: APPROVAL OF COMMENTS ON THE APPLICATION OF VIRGINIA ELECTRIC AND POWER COMPANY TO REVISE ITS FUEL FACTOR (SCC CASE NUMBER PUE-2003-00285)

---

**ISSUE:** Request for City Council approval of comments submitted to the State Corporation Commission (SCC) in response to the Dominion Virginia Power request for a \$441 million rate increase in its fuel factor proceeding at the SCC.

**RECOMMENDATION:** That City Council confirm and approve the comments presented at the SCC's October 7 public hearing on the 2004 Fuel Factor Proceeding for Dominion Virginia Power on behalf of the City (Attachment 1).

**DISCUSSION:** On July 14, the SCC issued an order establishing a 2004 Fuel Factor Proceeding for Dominion Virginia Power (Dominion Power, Virginia Electric and Power Company or the Company). In the Company's application and testimony, they requested an annual revenue increase of approximately \$441.7 million, effective with usage on and after January 1, 2004. If Dominion Power's rate increase is adopted by the Commission, costs to residential customers would increase by 8.1 percent and 17.7 percent to large commercial customers. The average residential customer's bill (assuming 1,500 kWh per month usage) would increase by \$10.77 per month or \$129.24 per year. Since there are fuel factor proceedings every year, rate changes approved in these cases are normally put into effect over a 12-month period. However, due to the magnitude of this request, the Company has requested that the increase be recovered over a two-year rather than a one-year period. The Company proposed to recover two-thirds in 2004 and one-third in 2005.

If the Company's request is granted the \$441.7 million rate increase as filed, the increase would represent the single largest rate increase in the history of the Commonwealth. Also, if approved, this large increase would occur at a time when the Company is earning a 22.39 percent return on its common equity, a return that is well over double the minimum allowed return on equity (9.47 percent) last established by the Commission and effective in 2002. SCC staff has calculated that in 2002, the Company earned \$696.9 million above the minimum allowed return.

The Dominion Virginia Power's application states that several factors contributed to the request for the increase. These factors include: (1) the replacement of a key safety component for all four nuclear reactors which required a shutdown of the units and necessitated the purchase of replacement power on the open market; and (2) significant increases in actual and estimated natural gas fuel and purchased power expenses in 2003 and 2004.

Attached is a copy of the comments presented on the Council's behalf during the October 7 SCC's public hearing. The two main points follow:

- The size and scope of the requested rate increase is unprecedented and the SCC needs to conduct a detailed audit and investigation to ensure that the level of fuel expense recovery requested in this proceeding is justifiable and fair.
- The legislative and regulatory policies that could potentially allow the company to receive the largest rate increase in the history of the Commonwealth at the same time that the company is earning profits that were over double the levels authorized by the SCC should be reviewed and changed.

Staff presented City comments at the public hearing that was held on October 7 at the State Corporation Commission in Richmond, since it was important for the City to express its concern about the magnitude of the proposed increase, and since we were unable to docket this before the October 7 hearing. Therefore, I am asking City Council to confirm and approve the comments contained in Attachment 1.

**FISCAL IMPACT:** None.

**ATTACHMENT:** Comments Submitted by Rose Williams Boyd on behalf of the City Council of Alexandria, Virginia in SCC Case No. PUE-2003-0285

**STAFF:** Rose Williams Boyd, Director of Citizen Assistance

COMMONWEALTH OF VIRGINIA  
BEFORE THE  
STATE CORPORATION COMMISSION

Application of  
VIRGINIA ELECTRIC AND POWER COMPANY

To revise its fuel factor  
Pursuant to Va. Code § 56-249.6

CASE NO. PUE - 2003-00285

Comments submitted by:

Rose Williams Boyd

on behalf of

The City Council

of

Alexandria, Virginia

On January 14, 2003, the Virginia State Corporation Commission issued an order establishing a 2004 Fuel Factor Proceeding for Dominion Virginia Power ("DVP" or the "Company" or "Virginia Power"). In the Company's application and testimony, it requested an annual revenue increase of approximately \$441.7 million, to be effective with usage on and after January 1, 2004.

While such applications are generally unremarkable and simply reflect an adjustment in the fuel factor as the cost of fuel fluctuates in price, the Alexandria City Council ("Council") maintains this application is more significant. In this instance, the Company seeks to increase its current fuel factor to a level that will result in a record average annual increase of 8.1% to residential customers and 17.7% to high load commercial customers, while at the same time the Company reports a record rate of Return on Common Equity of 22.39% in 2002.

Additionally, the Council is concerned that the Commission recently rules in its August 22, 2003 order that it lacks the authority to take into consideration the Company's record high earnings when rendering a decision in this case. This suggests that there are serious imperfections in the enabling legislation, and in the resulting regulatory process.

Upon review of the company's request, the Council respectfully submits the following comments on Dominion Virginia Power's application to revise its fuel factor in SCC Case No. PUE-2003-00285:

- 1) Dominion Virginia Power's request for a rate increase is unprecedented in size and scope.**

An increase in rates of this magnitude would constitute the highest rate increase in the history of the Commonwealth, and would impose significant economic burdens on the company's residential and business customers. We request that the Commission conduct a thorough and exhaustive audit and investigation of the company's fuel expense, to ensure that the level of fuel expense recovery requested in this proceeding is justifiable and fair.

- 2) The legislative and regulatory policies that could potentially allow the company to receive the largest rate increase in the history of the Commonwealth at the same time that the company is earning profits that were over double the levels authorized by the Commission should be reviewed and changed.**

As noted earlier, Dominion Virginia Power earned a record 22.39% rate of return on common equity in 2002, or \$679.9 million over and above what the SCC has earlier found to be a minimally acceptable rate of return for the company (9.47%). The Commission's recent ruling in its August 22, 2003 order that it lacks authority to take into consideration the company's record high earnings when rendering a decision in this case suggests that there are serious imperfections in the enabling legislation, and in the resulting regulatory

process. The Council shares the concern that the interests of the company's customers are not being fairly protected under a legislative and regulatory framework in which the company may request and potentially receive a \$441 million rate increase, while at the same time earning record rates of return on investment.

The Alexandria City Council urges the SCC to actively seek legislation that will enable the Commission to consider appropriate equity and fairness measures in future fuel factor proceedings in order to provide a measure of balance in the protection of the customer's interests. These measures may include implementation of a mechanism, such as an "earnings test," whereby a company's ability to recover fuel factor costs may be limited if earnings exceed specified levels. Without such changes in the statutes, customers will continue to lack adequate consumer safeguards, and face the prospect of other large rate increases no matter the level of earnings by the company.