

Exhibit No. 142

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

AT RICHMOND, MARCH 14, 2014

2014 MAR 14 P 3:00

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APPLICATION OF

VIRGINIA ELECTRIC AND POWER COMPANY

CASE NO. PUE-2013-00061

For revision of rate adjustment clause: Rider S,
Virginia City Hybrid Energy Center

FINAL ORDER

On June 14, 2013, Virginia Electric and Power Company d/b/a Dominion Virginia Power ("Dominion Virginia Power" or "Company"), pursuant to § 56-585.1 A 6 of the Code of Virginia ("Code"), filed with the State Corporation Commission ("Commission") an annual update with respect to the Company's rate adjustment clause ("RAC"), Rider S ("Application").¹ Through its Application, the Company seeks to recover costs associated with the Virginia City Hybrid Energy Center ("VCHC"), a 600 MW nominal coal-fueled generating plant and associated interconnection facilities located in Wise County, Virginia.

On June 28, 2013, the Commission issued an Order for Notice and Hearing in this case that, among other things, docketed the Application, required Dominion Virginia Power to publish notice of its Application, gave interested persons the opportunity to comment on or participate in the proceeding, scheduled a public hearing, and appointed a Hearing Examiner to conduct all further proceedings in this matter. Notices of participation were received from the Office of the Attorney General's Division of Consumer Counsel ("Consumer Counsel") and the Virginia Committee for Fair Utility Rates. The evidentiary hearing was convened on

¹ Ex. 2 (Application). On June 19, 2013, the Company supplemented its Application by filing Schedule 46C, Statement 4, which was inadvertently omitted from the original filing. See Ex. 5C (Schedule 46C, Statement 4).

December 17, 2013. Counsel for Dominion Virginia Power, Consumer Counsel and the Staff of the Commission ("Staff") were present at the hearing.²

On November 26, 2013, the Commission issued its Final Order in the Company's 2013 biennial review proceeding.³ Several of the Commission's findings in the 2013 Biennial Review Order impacted the Company's and Staff's revenue requirements for Rider S in the instant case. In particular, the Commission held that a base return on equity ("ROE") of 10.0% is applicable to the Company's RACs under §§ 56-585.1 A 5 and 6 of the Code, effective November 30, 2013.⁴ In addition, the Commission held that Staff's modified labor-based methodology should be used to capitalize generation overhead costs.⁵

On December 11, 2013, and December 12, 2013, respectively, Staff and the Company filed supplemental direct testimony to reflect the aforementioned findings in the Commission's 2013 Biennial Review Order. Four primary issues remained in dispute in this proceeding. The first concerned the treatment of accumulated deferred income taxes ("ADIT") associated with liberalized depreciation ("Liberalized Depreciation ADIT") balances.⁶ The second concerned the proper calculation of the cash working capital ("CWC") allowance in rate base. The third issue

² The evidentiary hearing was continued from the original date of December 11, 2013, when the Hearing Examiner granted the Staff's Motion for Continuance, filed December 9, 2013, wherein the Staff requested additional time to prepare and file supplemental testimony addressing issues that were resolved in the Commission's Final Order in the Company's 2013 biennial review proceeding.

³ *Application of Virginia Electric and Power Company, For a 2013 biennial review of the rates, terms and conditions for the provision of generation, distribution and transmission services pursuant to § 56-585.1 A of the Code of Virginia*, Case No. PUE-2013-00020, Doc. Con. Cen. No. 131130148, Final Order (Nov. 26, 2013) ("2013 Biennial Review Order").

⁴ 2013 Biennial Review Order at 14-15, n. 42.

⁵ *Id.* at 5.

⁶ In this case the Company developed the Liberalized Depreciation ADIT balances using a certain "proration" procedure in calculating the Projected Cost Recovery Factor and Actual Cost True-Up Factor. The Company asserted that its proposed proration methodology is required in order to comply with tax normalization rules. *See* Ex. 29 (Warren Rebuttal) at 4.

in dispute concerned whether the 50% equity ratio should be used to calculate the Projected Cost Recovery Factor component of the Rider S revenue requirement for the rate year beginning April 1, 2014, as well as the appropriate cost of debt to be used when adjusting the Company's capital structure to comply with the 2013 Biennial Review Order. The final issue concerned whether Dominion Virginia Power had exceeded the \$1.8 billion limit set by the Commission in its Final Order in Case No. PUE-2007-00066 for the construction of VCHEC and, if so, whether the costs above the \$1.8 billion cap should be recovered from ratepayers.⁷

On January 31, 2014, the Report of Alexander F. Skirpan, Jr., Senior Hearing Examiner ("Hearing Examiner's Report" or "Report") was issued. In his Report, the Hearing Examiner found that the Company's lead/lag study should be modified as recommended by Staff to include accounts payables related to the VCHEC construction work in progress ("CWIP") in the balance sheet analysis portion,⁸ an equity ratio of 50% should be used to calculate all components of the Rider S revenue requirement;⁹ a cost of debt of 5.235% should be used when adjusting the Company's capital structure to comply with the Commission's findings in the 2013 Biennial Review Order;¹⁰ and an ROE of 11.4% (base ROE of 10.4% approved in the Company's 2011 biennial review proceeding¹¹ plus a 100 basis point adder pursuant to § 56-585.1 A 6 of the

⁷ See *Application of Virginia Electric and Power Company, For a certificate of public convenience and necessity to construct and operate an electric generation facility in Wise County, Virginia, and for approval of a rate adjustment clause under §§ 56-585.1, 56-580 D, and 56-46.1 of the Code of Virginia*, Case No. PUE-2007-00066, 2008 S.C.C. Ann. Rept. 385, Final Order (Mar. 31, 2008) ("VCHEC Order").

⁸ Hearing Examiner's Report at 28-29.

⁹ *Id.* at 26-28.

¹⁰ *Id.* at 28.

¹¹ *Application of Virginia Electric and Power Company, For a 2011 biennial review of the rates, terms, and conditions for the provision of generation, distribution, and transmission services pursuant to § 56-585.1 A of the Code of Virginia*, Case No. PUE-2011-00027, 2011 S.C.C. Ann. Rept. 456, Final Order (Nov. 30, 2011), *aff'd sub nom. Virginia Elec. and Power Co. v. State Corp. Comm'n*, 284 Va. 726, 735 S.E.2d 684 (2012).

Code) should be used to calculate the Actual Cost True-Up Factor, while an ROE of 11% (base ROE of 10% approved in the Company's 2013 biennial review proceeding plus a 100 basis point statutory adder) should be used to calculate the Projected Cost Recovery Factor.¹² With regard to the Liberalized Depreciation ADIT issue, the Hearing Examiner found that the Company's proposed proration methodology should be used to calculate the Projected Cost Recovery Factor of Rider S, while actual results should be used to calculate the Actual Cost True-Up Factor;¹³ that the Company be required to request, with Staff's assistance, a Private Letter Ruling ("PLR") from the IRS specifically addressing the application of the tax normalization rules to RACs approved pursuant to § 56-585.1 A 6 of the Code;¹⁴ and that Dominion Virginia Power's lead/lag study should be modified to eliminate any adjustment to Liberalized Depreciation ADIT balances, in order to prevent the Company's cash requirements from being overstated.¹⁵ Finally, the Hearing Examiner determined that, while Dominion Virginia Power exceeded the \$1.8 billion cap set by the Commission in the VCHEC Order, the Company demonstrated that the additional costs were reasonable and prudent.¹⁶

In sum, the Hearing Examiner recommended approval of a total Rider S annual revenue requirement of \$238.7 million for the rate year beginning April 1, 2014.¹⁷

The Company filed comments to the Hearing Examiner's Report, urging the Commission to adopt the Report's recommendation that the Company's proposed proration methodology be

¹² Hearing Examiner's Report at 18-19, 29.

¹³ *Id.* at 21-25.

¹⁴ *Id.* at 21-24.

¹⁵ *Id.* at 26.

¹⁶ *Id.* at 21.

¹⁷ *Id.* at 29.

used to calculate the ADIT balance for purposes of the Rider S Projected Cost Recovery Factor.¹⁸ Dominion Virginia Power also supported the Report's recommendation for the Company to request a PLR from the IRS, with Staff's assistance, to determine whether the tax normalization rules require application of the Company's proration methodology to RACs approved pursuant to § 56-585.1 A 6 of the Code.¹⁹ The Company also stated that it supported the Report's finding that the additional costs incurred for VCHEC are reasonable and prudent.²⁰ Further, the Company did not oppose the Report's findings regarding the appropriate ROE to be used to calculate the Actual Cost True-Up Factor and Projected Cost Recovery Factor. The Company did, however oppose several of the Report's recommendations. Dominion Virginia Power opposed the finding that its proposed proration methodology should not be applied to the Actual Cost True-Up Factor;²¹ the inclusion of an accounts payable CWIP component in the CWC calculations;²² Staff's modification to liberalized depreciation deferred income taxes in the calculation of the CWC allowance when prorated ADIT balances are included in rate base;²³ the use of a 50% equity ratio capital structure for the Projected Cost Recovery Factor;²⁴ and the use of a 5.235% cost of debt when adjusting the Company's capital structure to comply with the 2013 Biennial Review Order.²⁵

¹⁸ Dominion Virginia Power's Comments to the Hearing Examiner's Report (Feb. 21, 2014) at 1, 4-5.

¹⁹ *Id.* at 4.

²⁰ *Id.* at 5.

²¹ *Id.* at 4-10.

²² *Id.* at 12-14.

²³ *Id.* at 11-12.

²⁴ *Id.* at 14-20.

²⁵ *Id.* at 20-21.

Consumer Counsel filed comments that supported the Hearing Examiner's finding with regard to the Liberalized Depreciation ADIT issue.²⁶ Consumer Counsel also supported the Hearing Examiner's findings that an equity ratio of 50% should be used to calculate all components of the Rider S revenue requirement and that a cost of debt of 5.235% should be used when adjusting the Company's capital structure to comply with the Commission's 2013 Biennial Review Order.²⁷ However, Consumer Counsel objected to the Hearing Examiner's recommendation of a revenue requirement that is designed to recover costs exceeding the \$1.8 billion cap set by the Commission in the VCHEC Order. Consumer Counsel stated that the Commission should limit the Company's recovery from ratepayers to the \$1.8 billion cap.²⁸

The Staff also filed comments to the Hearing Examiner's Report, in which Staff generally supported the Hearing Examiner's recommendations.²⁹

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

Dominion Virginia Power's proposed ADIT-proration methodology should be used to calculate the Projected Cost Recovery Factor and actual results should be used for the Actual Cost True-Up Factor, pending a final determination by the IRS. We concur with the Hearing Examiner that the Actual Cost True-Up Factor is based on actual costs determined in an historical, rather than a future period, and therefore use of the Company's proposed proration methodology for calculating the Actual Cost True-Up Factor is not required.³⁰ We further find

²⁶ Consumer Counsel's Comments to the Hearing Examiner's Report (Feb. 21, 2014) at 3-4.

²⁷ *Id.*

²⁸ *Id.*

²⁹ See Staff's Comments to the Hearing Examiner's Report (Feb. 21, 2014).

³⁰ See Hearing Examiner's Report at 21-25.

that the Company shall request, in a timely manner and with the assistance of Staff, a PLR from the IRS specifically addressing the application of the tax normalization rules to RACs approved by the Commission pursuant to § 56-585.1 A 6 of the Code. If the PLR establishes the use of the proration methodology in a manner other than what we approved herein, this issue may be revisited in a future Rider S proceeding. Further, the CWC allowance for the Projected Cost Recovery Factor shall be modified in the manner specified by Staff to eliminate any adjustment to Liberalized Depreciation ADIT balances.³¹ As discussed in the Hearing Examiner's Report, this adjustment "is necessary to keep such factors from being counted twice, and overstated."³²

Dominion Virginia Power's lead/lag study shall be modified in the manner specified by Staff to recognize the financial impact of accounts payable CWIP, which adjusts CWIP from an accrual to a cash basis. In addition, the Company shall continue to use a two-month rate base average to calculate financing costs in the Actual Cost True-Up Factor.³³ Based on Staff's testimony in this case, we conclude that this finding does not result in duplicative rate base reductions, nor does it prevent the Company from fully recovering its actual costs.³⁴

As found in the Company's most recent biennial review, an equity ratio of 50% shall be used to calculate Dominion Virginia Power's actual costs of capital in Rider S for calendar year

³¹ See Ex. 20 (McLeod Supp. Direct) at 5; Tr. 99-100. In other words, the Company shall modify its lead/lag study to utilize zero net lead/lag days for liberalized depreciation deferred income tax expense.

³² Hearing Examiner's Report at 26. The Hearing Examiner also noted that Dominion Virginia Power may include this issue when requesting its PLR. The Commission concurs with the Hearing Examiner that this issue may be included in the Company's request for a PLR.

³³ See Ex. 18 (McLeod Direct) at 23-25; Tr. 94-99; Hearing Examiner's Report at 28-29.

³⁴ See, e.g., Tr. 94-99.

2012. As explained in the 2013 Biennial Review Order, we find that this result is supported by the evidence and permitted by statute.³⁵

As also explained in the 2013 Biennial Review Order, "in order to maintain the Company's total ratemaking capitalization and rate base investment at its current level, the decrease in the equity ratio shall be matched with a corresponding increase in the long-term debt ratio."³⁶ Contrary to Dominion Virginia Power's assertion, however, this does not require a change to the actual cost of debt calculation for 2012. We find that the Company's proposed cost of its incremental debt (5.701%), which it used when adjusting its capital structure to comply with the Commission-directed equity ratio of 50%, is unreasonably high. Rather, we find that the Company's actual overall 2012 cost of debt (5.235%) is reasonable for this purpose.³⁷

Moreover, for purposes of the Projected Cost Recovery Factor, Dominion Virginia Power states that its "actual 2013 end-of-period capital structure is not yet known and will be subject to review in a future case."³⁸ As a result, the Company seeks to use a "proxy" capital structure with a 51.8% equity ratio until the actual is known and subsequently reviewed by the Commission.³⁹ We reject, however, Dominion Virginia Power's request to use a quarter-end – as opposed to a year-end – capital structure for this purpose. The Company acknowledges that its actual year-end 2013 capital structure is unknown and unable to be reviewed under the applicable statute.⁴⁰ In such instance, we find that it is reasonable for customers' rates to reflect the

³⁵ See 2013 Biennial Review Order at 21-24.

³⁶ *Id.* at 21, n. 58.

³⁷ See Ex. 24 (Oliver Supp. Direct) at Schedule 1; Tr. 107-111; Hearing Examiner's Report at 28.

³⁸ Dominion Virginia Power's Comments to the Hearing Examiner's Report (Feb. 21, 2014) at 16.

³⁹ *Id.* at 14-20.

⁴⁰ *Id.* at 16, 18, n. 57.

Company's most recently approved (*i.e.*, 2012 year-end) capital structure, which has an equity ratio of 50%.⁴¹ Moreover, as this serves as a proxy until the projected factor is trued-up, Dominion Virginia Power will not be prevented from recovering its reasonable costs under the statute.

This decision is consistent with our prior orders for Rider S.⁴² In fact, in ordering the most recent Projected Cost Recovery Factor for Rider S in 2013, we used (and the Company proposed) the most recent end-of-test period ratemaking capital structure and cost of capital. That is, the Projected Cost Recovery Factor ordered in 2013 was based on the 2011 ratemaking capital structure.⁴³ Likewise, the projected factor ordered herein is based on the 2012 ratemaking

⁴¹ Thus, the Projected Cost Recovery Factor shall reflect the capital structure approved herein for the Actual Cost True-Up Factor.

⁴² See, *e.g.*, *Application of Virginia Electric and Power Company, For approval of the annual filing as required by Final Order of the State Corporation Commission in Case No. PUE-2007-00066 granting approval of a rate adjustment clause, Rider S, with respect to the Virginia City Hybrid Energy Center generation and transmission facilities located in Wise County, Virginia*, Case No. PUE-2010-00054, 2011 S.C.C. Ann. Rept. 333, 334, Order Approving Rate Adjustment Clause (Mar. 22, 2011) (the Commission used the end-of-period capital structure and cost of capital for determining the revenue requirement for Rider S). Indeed, this has also been common practice in other similar RAC proceedings. See, *e.g.*, *Application of Virginia Electric and Power Company, For revision of rate adjustment clause: Rider R, Bear Garden Generating Station for 2011-2012*, Case No. PUE-2010-00055, 2011 S.C.C. Ann. Rept. 335, 336, Order Approving Rate Adjustment Clause (Mar. 22, 2011) (the Commission used the end-of-period capital structure and cost of capital for determining the revenue requirement for Rider R); *Application of Virginia Electric and Power Company, For approval and certification of the proposed Warren County Power Station electric generation and related transmission facilities under §§ 56-580 D, 56-265.2, and 56-46.1 of the Code of Virginia and for approval of a rate adjustment clause, designated as Rider W, under § 56-585.1 A 6 of the Code of Virginia*, Case No. PUE-2011-00042, 2012 S.C.C. Ann. Rept. 263, 270, n. 72, Final Order (Feb. 2, 2012) (the Commission rejected the Company's request to use a quarter-end capital structure for calculation of AFUDC for ratemaking purposes); *Application of Virginia Electric and Power Company, For approval to implement new demand-side management programs and for approval of two updated rate adjustment clauses pursuant to § 56-585.1 A 5 of the Code of Virginia*, Case No. PUE-2011-00093, 2012 S.C.C. 298, 302, Order (Apr. 30, 2012) (the Commission held that the calculation of margins on operating expense were to be based on the December 31, 2010 year-end capital structure for the Rate Year Projected Revenue Requirement).

⁴³ See *Application of Virginia Electric and Power Company, For revision of rate adjustment clause: Rider S, Virginia City Hybrid Energy Center*, Case No. PUE-2012-00071, Doc. Con. Cen. No. 120650030, Application at 10 (June 29, 2012); *Application of Virginia Electric and Power Company, For revision of rate adjustment clause: Rider S, Virginia City Hybrid Energy Center*, Case No. PUE-2012-00071, Doc. Con. Cen. No. 130320086, Final Order (Mar. 12, 2013).

capital structure.⁴⁴ The percentage of common equity in the capital structure is used in conjunction with the ROE in determining a cost of capital for the projected factor. In this manner, the cost of capital included in the projected factor reflects the most recently approved ROE and equity ratio.⁴⁵

We conclude, as we have in the past, that it is reasonable to use the most recently approved equity ratio as a proxy in setting the Projected Cost Recovery Factor. We continue to find that such proxy is reasonable and permitted by statute, and that the subsequent true-ups for Rider S enable Dominion Virginia Power to recover its reasonable costs under the statute.

Finally, Dominion Virginia Power requests recovery of total project capital costs that exceed the \$1.8 billion cap established by the Commission in the VCHEC Order, and which the Company accepted and is bound by as a result of proceeding with this project under the terms of approval ordered by the Commission. In this regard, Consumer Counsel states that it "takes the Commission's act of setting the \$1.8 billion cap seriously" and objects to the Company's request herein to exceed such cap by approximately \$26 million.⁴⁶ We have considered Consumer Counsel's objections and agree that the cap was an integral component of the Commission's approval in the VCHEC Order. We also have considered the record in this matter regarding the Company's proposed extension of the cap, much of which has been designated confidential by the participants in this proceeding. We conclude that the extension of the cap is appropriate – in this instance – based on the unique factual situation presented. Specifically, based on the record,

⁴⁴ Unlike 2011, however, the approved 2012 capital structure is different from that originally proposed by Dominion Virginia Power. *See* 2013 Biennial Review Order at 21-24.

⁴⁵ Thus, there is a direct link between ROE and the equity ratio.

⁴⁶ Consumer Counsel's Comments to the Hearing Examiner's Report (Feb. 21, 2014) at 10.

we agree with the Hearing Examiner and Staff that the increased costs will provide additional benefits to customers, and that these benefits will, over time, exceed such costs.

Accordingly, IT IS ORDERED THAT:

(1) The Company's Application for approval of a revision of its rate adjustment clause, designated as Rider S, is granted in part and denied in part as set forth herein.

(2) The Company shall forthwith file a revised Rider S and supporting workpapers with the Clerk of the Commission and with the Commission's Divisions of Energy Regulation and Utility Accounting and Finance, as is necessary to comply with the directives set forth in this Final Order. The Clerk of the Commission shall retain such filings for public inspection in person and on the Commission's website: <http://www.scc.virginia.gov/case>.

(3) Rider S, as approved herein, shall become effective for service rendered on and after April 1, 2014.

(4) On or before June 30, 2014, the Company shall file an application to revise Rider S effective April 1, 2015. Such application shall provide an update regarding the Company's request for a PLR from the IRS.

(5) This case is dismissed from the Commission's docket, and placed in closed status in the records maintained by the Clerk of the Commission.

AN ATTESTED COPY hereof shall be sent by the Clerk of the Commission to all persons on the official Service List in this matter. The Service List is available from the Clerk of the State Corporation Commission, c/o Document Control Center, 1300 East Main Street, First Floor, Tyler Building, Richmond, Virginia 23219. A copy shall also be sent to the Commission's Office of General Counsel and Divisions of Energy Regulation and Utility Accounting and Finance.