Revised Preliminary Challenges of
Old Dominion Electric Cooperative,
North Carolina Electric Membership Corporation, and
Northern Virginia Electric Cooperative
Regarding Virginia Electric and Power Company's
Electric Transmission Formula Rate
2021 Annual Update and 2019 True-Up Adjustment

Revised Preliminary Challenges
Updated January 15, 2021 To Remove Contingent Challenges

Pursuant to Virginia Electric and Power Company's ("VEPCo" or "the Company") Formula Rate Implementation Protocols set forth in PJM's Open Access Transmission Tariff ("OATT"), Old Dominion Electric Cooperative ("ODEC"), North Carolina Electric Membership Corporation ("NCEMC") and Northern Virginia Electric Cooperative ("NOVEC") (together, the "Joint Customers") hereby submit their Preliminary Challenges list pertaining to the VEPCo Formula Rate 2021 Annual Update and 2019 True-Up.

The list below has been divided into two groups. The first group, "Resolved Issues," outlines those issues the Joint Customers believe have been resolved based on VEPCo's responses to the customers' information data requests. To the extent VEPCo disagrees with the Joint Customer's assertion that a certain issue has been resolved, such issue will be considered a Preliminary Challenge. The second group of issues outlines those that the Joint Customers consider to be unresolved and consequently are deemed to be Preliminary Challenges under the Protocols.

A. RESOLVED ISSUES

1. Certain Civic, Political, and Related Activities in FERC Account 923.

VEPCo in response to Information Request No. ODEC/NCEMC/NOVEC-VEPCO 1.58, stated: "The Company is aware of certain civic, political, and related activities that were inadvertently recorded in FERC Account 923 for the year ending December 31, 2019. The total amount recorded in FERC Account 923 was approximately $1,014,214. The Company will record an adjusting entry in fiscal year 2020 to reverse these balances from FERC Account 923 and reclassify relevant amounts to FERC Accounts 426.4 or 426.5."

Joint Customers tentatively agree with VEPCo's proposed correction for the Certain Civic, Political, and Related Activities recorded in FERC Account 923 inadvertently, but want to ensure that VEPCo's adjustment in fiscal year 2020 includes interest to be refunded to the Joint Customers, since the 2020 Projection includes interest on the 2019 True-Up Adjustment and VEPCo's proposed adjustment in fiscal year 2020 should have reduced the 2019 True-Up Adjustment, prior to interest or Future Value Factor. To the extent VEPCo disagrees with the Joint Customers' request for interest, this issue should be treated as a Preliminary Challenge.

2. **Bath County Property Taxes Correction.**

VEPCo in response to Information Request No. ODEC/NCEMC/NOVEC-VEPCO 2.1.e, stated: "See Attachment ODEC_NCEMC_NOVEC-VEPCO Set 2.1(e) (MAN) Property Tax Support. The value amount found at Line 10 of Attachment 11A reflected in the September posting of the 2019 True-Up was incorrect and this response reflects the actual 2019 property tax amount. The Company will make this appropriate change to Attachment 11A in its January 2021 Informational Filing." VEPCo's Attachment calculations reflect that the Bath County property taxes had been over-stated in the 2019 True-Up.

Joint Customers tentatively agree with VEPCo's proposed correction, but want to ensure that VEPCo's proposed correction includes interest, since the 2021 Projection includes interest on the 2019 True-Up Adjustment and this correction should have reduced the 2019 True-Up Adjustment, prior to interest or Future Value Factor. To the extent VEPCo disagrees with the Joint Customers' request for interest, this issue should be treated as a Preliminary Challenge.

3. **AFUDC included in O&M.**

In VEPCo's response to Information Request No. ODEC/NCEMC/NOVEC-VEPCO 3.1.a, VEPCo stated: "While preparing this response, the Company discovered that $3,124.35 in AFUDC charges were inadvertently transferred to the O&M account which will be corrected in the 2021 Annual Update."

Joint Customers tentatively agree with VEPCo's proposed correction, subject to VEPCo providing supporting documentation that demonstrates that the remaining $13,506.21 ($16,630.56 - $3,124.35) of the AFUDC Debt and Equity charges of $16,630.56, which were referenced in Outstanding Preliminary Challenge Issue 1, were not also written off to an account included in the 2019 True-Up. Additionally, Joint Customers want to ensure that VEPCo's proposed correction includes interest, since the 2021 Projection includes interest on the 2019 True-Up Adjustment and this correction should have reduced the 2019 True-Up Adjustment, prior to interest or Future Value Factor. To the extent VEPCo disagrees with the Joint Customers' request for interest and/or request for confirmation that the remaining amount of AFUDC Debt and Equity were not also written off to an account included in the 2019 True-Up, this issue should be treated as a Preliminary Challenge. (See VEPCo's response to Information Request No. ODEC/NCEMC/NOVEC-VEPCO 3.3)

4. **Acquiring Easements – Land Held for Future Use.**

In VEPCo's response to Information Request No. ODEC/NCEMC/NOVEC-VEPCO 3.1.b, VEPCo stated: "The work associated with 948086 Yadkin Access Road related to exploration of a second access road to the Yadkin substation. The Company was able to acquire some but **not all of the parcels needed to construct a second access road**. However, upon further review of these costs, the Company discovered that the **full cost associated with the work** to obtain these easements in the amount of $130,217.81 should have been recorded to land held for future use. An adjustment will be made in the 2021 Annual Update to correct this issue." [bold added] Based on

VEPCo's above response, Joint Customers believe that the $130,217.81 of expenses related to "Yadkin Access Road" should have been initially recorded to FERC Account 183 – Preliminary survey and investigation charges and then after the Company was unable to acquire all of the parcels necessary to construct the second access road, the costs related to the easements which were acquired should have been recorded to land held for future use (not allocated to transmission) and the remaining workorder costs for the work to obtain the easements which did not result in the easements being acquired should have been recorded 100% to Account 426.5, since VEPCo was unsuccessful in acquiring those easements.

Joint Customers are potentially in agreement with VEPCo on this issue, with the above caveats that **only** the costs related to the easements acquired (with supporting documentation provided by VEPCo) are reflected in land held for future use (not allocated to transmission) and the remaining workorder costs for the work to obtain the easements which did not result in the easements being acquired should have been recorded 100% to Account 426.5. Additionally, Joint Customers want to ensure that VEPCo's proposed correction includes interest, since the 2021 Projection includes interest on the 2019 True-Up Adjustment and this correction should have reduced the 2019 True-Up Adjustment, prior to interest or Future Value Factor. To the extent VEPCo disagrees with the Joint Customers' request for interest and/or clarifications regarding the accounting for this issue, this issue should be treated as a Preliminary Challenge.

B. OUTSTANDING PRELIMINARY CHALLENGE ISSUES

1. Canceled Projects Written Off to O&M.

VEPCo recorded $188,138 in write-offs in FERC Account 566 related to obsolete inventory (salvage) for ($10,759) and canceled projects for $198,897 in 2019. VEPCo had recorded accrued AFUDC Debt and Equity charges totaling $16,630.56 ($11,356.96 + $5,273.60) to certain of the canceled projects. Based on the fact that VEPCo recorded AFUDC on certain of the canceled projects, VEPCo appears to have inappropriately written-off to FERC Account 566 several of these canceled projects that had been recorded in CWIP (FERC Account 107) without requesting approval from FERC. (Information Request Nos. ODEC/NCEMC/NOVEC-VEPCO 3.1, 3.3, and 1.2.(a & b))

VEPCo in response to Information Request No. ODEC/NCEMC/NOVEC-VEPCO 3.1.a, received on 12/2/2020, stated: "The work associated with Corten Ln 579 Refurbishment was related to **exploring foundation deficiencies** on structures #579/133 through #579/137. Ultimately, **no foundation work was commissioned because this line is slated to be rebuilt in 2026**. The charges at issue are typical preliminary charges related to conceptual engineering and project management support." [bold added] Based on VEPCo's above response, Joint Customers believe that the $20,842.34 of expenses related to "Corten Ln Refurbishment" should have been recorded to FERC Account 183 – Preliminary survey and investigation charges and then the work abandonment should have been recorded 100% to Account 426.5, since VEPCo determined to not further pursue the foundation work because the line is slated to be rebuilt in 2026.

VEPCo in response to Information Request No. ODEC/NCEMC/NOVEC-VEPCO 3.1.c, received on 12/2/2020, stated:

> The work associated with Martins Hundred and Newport Reservoir projects began prior to a subsequent project being completed. This wave trap work was put on hold due to the overlapping scope of the other project and then was determined to be unnecessary once the other project was completed. With regard to Martins Hundred, most of these costs were related to conceptual engineering, materials procurement, and project management support. When moving forward with the initial scope of work was deemed to be unnecessary, these charges were moved to an O&M account. Where possible, materials were credited back to inventory. Records show a wave trap issued in 2011 was credited back to inventory in 2014, and any additional issued materials (totaling $782.47) were presumed lost and written off. With regard to Newport Reservoir, most of these costs were related to conceptual engineering, materials procurement, and project management support. When moving forward with the initial scope of work was deemed to be unnecessary, these charges were moved to an O&M account. All materials issued in 2011 (totaling $740.25) were presumed lost and written off.

Based on VEPCo's above response, Joint Customers believe that the $9,511.59 of expenses related to "Martins Hundred and Newport Reservoir" should have been recorded to FERC Account 183 – Preliminary survey and investigation charges and then when moving forward with the initial scope of work was deemed unnecessary, those costs should have been recorded 100% to Account 426.5.

VEPCo in response to Information Request No. ODEC/NCEMC/NOVEC-VEPCO 3.1.d, received on 12/2/2020, stated: "The work associated with Brook Point did not move forward due to the building of another substation which made continued work associated with Brook Point Sub unnecessary. In reviewing the costs associated with this work related to Brook Point, it was confirmed that these costs were related to conceptual engineering, environmental, land acquisition, permitting, and project management support. These costs were charged to the O&M account as a business expense." Based on VEPCo's above response, Joint Customers believe that the $36,365.48 of expenses related to "Brook Point Sub" should have been recorded to FERC Account 183 – Preliminary survey and investigation charges and then when moving forward with the project due to the building of another substation made continued work associated with the Brook Point Sub unnecessary, those costs should have been recorded 100% to Account 426.5.

For the foregoing reasons and based on VEPCo's responses to Information Request Nos. ODEC/NCEMC/NOVEC-VEPCO 3.1.(a – d), the Joint Customers challenge the inclusion of the expenses for the projects referenced in VEPCO's responses to ODEC/NCEMC/NOVEC-VEPCO 3.1(a) (with the exception of the resolved AFUDC issue), 3.1(c) and 3.1(d) in transmission O&M expenses. These adjustments which result in a reduction to the 2019 True-Up should also include interest, when reflected in the 2021 Annual Update.

2. Richmond's OJRP Office and Petersburg Office Retirements.

VEPCo recorded approximately $15 million in depreciation expenses in general plant related to the GAAP Retirement of the Richmond OJRP office in the amount of approximately $12 million and the Petersburg office in the amount of approximately $3 million. (Information Request No. ODEC/NCEMC/NOVEC-VEPCO 1.32) VEPCO provided the detailed amounts of the Richmond OJRP and Petersburg offices that were retired and the recording of the Plant Abandonment-Depr Exp in the amounts of $12,549,295.70 and $3,049,281.80 respectively in "Attachment ODEC_NCEMC_NOVEC-VEPCO Set 3.10 (MJW).xlsx." It is Joint Customers' understanding that VEPCo did not request permission from FERC to reflect the 100% write-off of the Regulatory Asset(s) for the Plant Abandonment of either the Richmond ORJP office or the Petersburg office and to include that write-off in the general plant depreciation expense allocated to transmission customers in the OATT annual formula rate update. The GAAP Retirement of these office buildings including the write-off of the regulatory assets to depreciation expense in the current year may be appropriate for GAAP purposes and may even be appropriate for the Virginia State Corporation Commission ("SCC") and the North Carolina Utilities Commission, but prior to inclusion of the 100% write-off of these office buildings regulatory assets as abandoned plant to depreciation and inclusion of these write-offs in transmission rates, VEPCo must first seek FERC's approval.

VEPCo stated in response to Information Request No. ODEC_NCEMC_NOVEC-VEPCO Set 3.10a: "Richmond's OJRP office was retired due to the age of the building. Its employees moved out of OJRP into other facilities and the building was retired when it was vacant." The OJRP office still had a net book value of approximately $12,549,295.70 at the time of its retirement. VEPCo further stated in response to Information Request No. ODEC_NCEMC_NOVEC-VEPCO Set 3.10c that: "The Petersburg office was retired as its employees were moving into a new office space and the existing Petersburg building was no longer needed." The Petersburg office still had a net book value of approximately $3,049,281.80 at the time of its retirement.

VEPCo in response to Information Request No. ODEC_NCEMC_NOVEC-VEPCO Set 3.10.(b&d) stated: "Similar to the response to 3.24, in terms of FERC classification, FERC USofA guidance 18 C.F.R. Ch. I Pt. 101 Electric Plant Instructions item 10 requires the cost of retired plant and the related accumulated depreciation to be removed from the plant accounts and the undepreciated balance of such plant to be charged to accumulated depreciation when the plant is retired, *i.e.*, FERC requires impairment losses to be credited to accumulated depreciation. In terms of the FERC income statement, Section D of the FERC description of Account 182.2 notes: 'In the event that the recovery of costs included herein is disallowed in the rate proceedings, the disallowed costs shall be charged to account 426.5, Other Deductions, or account 435, Extraordinary Deductions, in the year of such disallowance.'" VEPCo when quoting the FERC description of Account 182.2 failed to include Sections A through C where it states:

A. This account shall include: (1) Nonrecurring costs of studies and analyses mandated by regulatory bodies related to plants in service, transferred from account 183, Preliminary Survey and Investigation Charges, and not resulting in construction; and (2) when **authorized by the Commission**, **significant unrecovered costs of plant facilities** where construction has been cancelled or which have been **prematurely retired**. [**bold added**]

B. This **account shall be credited and account 407, Amortization of Property Losses**, **Unrecovered Plant** and Regulatory Study Costs, shall be debited over the period specified by the **Commission**. [**bold added**]

C. Any additional costs incurred, relative to the cancellation or **premature retirement**, may be included in this account and **amortized over the remaining period of the original amortization period**. Should any gains or recoveries be realized relative to the cancelled or **prematurely retired plant**, such amounts shall be used to reduce the unamortized amount of the costs recorded herein.

To be clear, the "Commission" referred to in Sections A and B is the FERC and not any other regulatory body or bodies. The unrecovered costs of plant facilities in this instance are the VEPCo Richmond OJRP office and the Petersburg office. The total costs of both offices that are unrecovered are $15.599 million which would be considered "significant" unrecovered costs of the plant (office) facilities.

VEPCo erred by not following FERC guidelines on "Unrecovered Plant" as discussed in Sections A through C of FERC Account 182.2 – Unrecovered plant and regulatory study costs.

Additionally, VEPCo in response to Information Request No. ODEC_NCEMC_NOVEC-VEPCO Set 3.10.(b&d) stated that it considered other expense accounts but after considering the FERC definition for depreciation, it concluded that the debit for plan in service items should be recorded to Account 403 since the abandoned building lost its value. The Joint Customers believe that FERC's precedent under Order No. 618 provide that companies may change depreciation estimates for accounting purposes without prior FERC approval. However, for ratemaking purposes FERC approval is necessary prior to including changes in depreciation estimates in wholesale rates.

The Joint Customers believe that VEPCo failed to request authority from the FERC prior to including the 100% write-off of the Regulatory Asset(s) for the Plant Abandonment or Unrecovered Plant costs of these two offices in depreciation expense and including that depreciation expense in the 2019 Transmission Formula Annual Update. FERC has jurisdiction over the wholesale transmission formula rate recovery of regulatory assets and depreciation associated with the Plant Abandonment of these two office buildings. (See also Information Request Nos. ODEC_NCEMC_NOVEC-VEPCO 1.89, 3.24, 3.25, & 3.26)

3. Colonial Trail West Solar Costs Recorded in General Plant Account 391.

VEPCo recorded approximately $48.9 million in Colonial Trail West Solar project costs in general plant in 2019. In response to Information Request No. ODEC/NCEMC/NOVEC-VEPCO 3.16.e., VEPCO stated: "Colonial Trail West is a solar project that went into service in 2019. The total project cost over $240 million. Note that the project was incorrectly allocated evenly across 5 different FERC accounts at 12/31/19, resulting in over $48 million being allocated to FERC 391. This allocation was corrected in 2020. 0.2% of the charges are allocated to FERC 391. Total charges in FERC 391 are less than $500,000."

The Joint Customers challenge the inclusion of these Colonial Trail West Solar costs in General Plant Account 391 which was allocated to the transmission rate base for 2019. VEPCo's correction in 2020 will not provide the transmission customers any relief in the 2019 True-Up nor in the 2021 Annual Update. This adjustment would result in a reduction to the 2019 True-Up, and should include interest.

4. **Other Electric Revenues in Account 456 - General Plant Related.**

VEPCo in response to Information Request No. ODEC/NCEMC/NOVEC 2.5.c, reflected $67,016,775 in Production/Other Related revenues. Joint Customers requested additional information on the $67,016,775 revenue composition in Information Request No. ODEC/NCEMC/NOVEC 4.7(a&b). In response to subpart (a), VEPCo stated: "The $67,016,775 in Production/Other Related revenues reflected in the Attachment 3 – Revenue Credit Workpaper included in the response to ODEC/NCEMC/NOVEC Set 2.5(c) includes some revenues related to General Plant." In response to subpart (b), VEPCo stated there were multiple "recorded regulated recovery of facilities" that were included in the $67,016,775 amount. VEPCo provided a detail of the various recoveries from Dominion Energy Services, Inc. ("DES"), Dominion Voltage, Inc. ("DVI") and Dominion Technology, Inc. ("DTECH") that were recorded in VEPCo General Ledger Account Nos. 5998921, 5998918, and 5998922. The total recorded regulated recovery of facilities from DES, DVI and DTECH were approximately $13.8 million, $0.10 million and $5.5 million respectively in 2019. VEPCo in the response did not state whether the Company had allocated any of those recorded regulated recovery of facilities revenues to the transmission customers.

The Joint Customers challenge VEPCo's apparent **exclusion** of these "General Plant" related revenues from being allocated to the transmission customers in Attachment 3 – Revenue Credit Workpaper in the 2019 True-Up Adjustment based on a W&S Allocator, since the transmission formula rates include both an allocation of "General Plant" and "General Plant Depreciation." VEPCo should make a correction in 2019 True-Up and in the 2021 Annual Update. This adjustment that would result in a reduction to the 2019 True-Up; that adjustment should also include interest. This preliminary challenge issue would also impact prior annual updates.

5. **Virginia Sales Tax Regulatory Asset Expenses in OATT rates.**

VEPCo has established a regulatory asset in FERC Account 182.3 for Virginia Sales Tax due to the passage of Virginia House Bill 5018 of 2004. VEPCo stated in response to Information Request No. ODEC/NCEMC/NOVEC 4.13(a & d), that:

> To mitigate the financial impact on public utilities, HB 5018 included a provision that grants utilities a "dollar for dollar" rate recovery mechanism similar to that formerly provided for the cost of fuel and energy purchases incurred by electric utilities. As a result of this provision, the Company is entitled to recover the Virginia jurisdictional portion (80%) of the incremental portion of the sales and use taxes its pays through a sales and use tax surcharge. Based on Company management's intent and authority to collect this portion through the surcharge authorized by HB 5018, such amounts have been recognized as a regulatory asset until they are billed to Virginia jurisdictional customers.

VEPCo further states in response to Information Request No. ODEC/NCEMC/NOVEC 4.13(a & d), that: "The incremental tax is the additional sales and use tax incurred by VEPCO or VEPCO's construction contractors as a result of the passage of HB 5018. Such tax is then reduced by the non-Virginia jurisdictional cost allocation factor to determine the amount of incremental tax available for recovery through the Virginia base rate sales and use tax surcharge. This amount recoverable through the tax surcharges is recorded as a regulatory asset."

As wholesale transmission customers, Joint Customers are not subject to the "Virginia base rate sales and use tax surcharge." Joint Customers believe that VEPCo's inclusion of these Virginia Sales Tax Regulatory Asset expenses in FERC Account 566 or any other FERC Account that is included in the transmission formula is inappropriate. All Virginia Sales Tax Regulatory Assets expenses should be excluded from the 2019 True-up Adjustment. This adjustment would result in a reduction to the 2019 True-Up, and should also include interest. This preliminary challenge issue would also impact prior annual updates.

6. Legal Notices Recorded in Account 930.2.

Based on the Company's response to Information Request No. ODEC/NCEMC/NOVEC 1.29(e), Joint Customers submit that VEPCo has included the costs of Legal Notices primarily for legal, advertising and miscellaneous outside services in the amount of $1,354,103 paid to Virginia Press Services in FERC Account 930.2 in error. Those legal notices should have been recorded to either FERC Account 909 – Informational and Instructional Advertising Expenses, FERC Account 913 – Advertising Expenses, or FERC Account 930.1 – General Advertising Expenses. The FERC Uniform System of Accounts definitions of FERC Account 909, Account 913 and Account 930.1 require all "Advertising" to be recorded in those accounts, such as preparing advertising material for newspapers, periodicals, billboards, etc. The definition of Account 930.2 does not include the cost of any "Advertising." The Joint Customers believe that VEPCo should exclude these Legal Notices for legal, advertising and miscellaneous outside services from the 2019 True-up Adjustment and the 2021 Annual Update. This adjustment would result in a reduction to the 2019 True-Up. VEPCO also should include interest on this adjustment. This preliminary challenge issue would also impact prior annual updates. (Information Request No. ODEC/NCEMC/NOVEC 1.29 and Attachment ODEC_NCEMC_NOVEC-VEPCO Set 1.29 (NF).xlsx)

7. Software/Hardware Purchases Recorded in Account 921.

VEPCo appears to have inappropriately included Software/Hardware Purchases and related costs in FERC Account 921 based on the Company's response to Information Request No. ODEC/NCEMC/NOVEC 3.5(a)&(b). VEPCo has included $189,939.66 related to "GAS DISTRIBUTION Connection Order#56741830" in Account 921 from Dominion Energy Services (DES). This expense appears to be related to VEPCo's gas operations rather than its electric operations. VEPCO should exclude these costs from transmission rates because they bear no relation to the provision of electric transmission service.

VEPCo also has included $1,882,894.22 for seven Software/Hardware purchases where the payment was greater than or equal to $100,000 and an additional twenty-one purchases totaling $1,196,711.54 in Software/Hardware purchases where the payment was between $20,000 and

$100,000 in Account 921. VEPCo, however, provided no supporting documentation that these purchases satisfy the minimum threshold of $2,000 for assets (hardware) to be capitalized or the threshold of $100,000 for software to be recorded as an intangible asset. A list of the transactions is included in an attachment. Joint Customers believe that the above-mentioned Software/Hardware purchases should have been capitalized or recorded as intangible assets, which would result in the allocation of only a portion of these asset costs to transmission rates rather than the 100% allocation proposed by VEPCO.

These two adjustments would result in a reduction to the 2019 True-Up. VEPCO also should include interest on these adjustments. (Information Request No. ODEC/NCEMC/NOVEC 3.5 and Attachment ODEC_NCEMC_NOVEC-VEPCO Set 3.5(a)(b)(NF).xlsx).