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 2019 Annual Update and 2017 True-Up Adjustment

December 5, 2018

With respect to the 2019 Annual Update and 2017 True-Up of Virginia Electric and Power Company's ("VEPCo") transmission formula rate, Old Dominion Electric Cooperative ("ODEC"), North Carolina Electric Membership Corporation ("NCEMC") and Northern Virginia Electric Cooperative ("NOVEC") (together, the "Joint Customers") challenge certain cost items related to VEPCo's 2017 True-Up detailed below as the "Outstanding Preliminary Challenge Issues." There are no "Resolved Issues."

OUTSTANDING PRELIMINARY CHALLENGE ISSUES

1. Unfunded Reserve – Accrued Severance Pay.

Joint Customers submit a Preliminary Challenge to VEPCo's 2019 Annual Update and 2017 True-Up with respect to VEPCo's failure to include a reduction to rate base for an Unfunded Reserve for Accrued Severance Pay. VEPCo should have included an Unfunded Reserve for Severance Pay, based on information provided in VEPCo's 2018 Annual Update which reflected an Accrued Severance Pay Balance as of 12/31/16 of approximately $7.4 million. Also, the Unfunded Reserve for Accrued Severance Pay balance as of 12/31/17 should be utilized in determining the average Unfunded Reserve Balance to be deducted from rate base, using the Wage & Salary Allocation Factor. [redacted] VEPCO's transmission rate formula already includes a line to reduce transmission rate base by removing Transmission O&M Reserves in Account 242. See Appendix A, Page 2, line 47 and Attachment 5 – Cost Support Excel rows 113 – 119. The inclusion of these unfunded reserves, whether included in Account 242 or Account 232, would be consistent with FERC precedent. (See Preliminary Challenge Issue No. 4.)

2. Unfunded Reserve - Annual Incentive Plan.

Joint Customers submit a Preliminary Challenge to VEPCo's 2019 Annual Update and 2017 True-Up with respect to VEPCo's failure to include a reduction to rate base for an Unfunded Reserve for the Annual Incentive Plan ("AIP"). VEPCo should have included an Unfunded Reserve for the AIP, based on information provided in VEPCo's response to Information Request No. ODEC/NCEMC-VEPCO 2-4 which reflected Accrued Transmission AIP Balances of approximately $5.6 million and $3.9 million as of 12/31/17 and 12/31/16, respectively. [redacted] The inclusion of these unfunded reserves, whether included in Account 242 or Account 232, would be consistent with FERC precedent. (See Preliminary Challenge Issue No. 4.)

3. Unfunded Reserve - Kingsmill Injuries and Damages.

Joint Customers submit a Preliminary Challenge to VEPCo's 2019 Annual Update and 2017 True-Up with respect to VEPCo's failure to provide the information sought in Information Request No. ODEC/NCEMC-VEPCO 2-30 and ODEC/NCEMC-VEPCO 1-33. VEPCo did not provide a copy of all the transactions for the $520,000, including all FERC Accounts that were utilized. Instead, VEPCo only provided one side of the journal entry/transaction, *i.e.*, the "credit" to FERC Account 228.2 – Accumulated Provision for Injuries and Damages account. VEPCo did not provide the FERC Account(s) that would have been "debited" for the other side of the journal entry/transaction. Joint Customers are not able to determine, based on VEPCo's responses to date, whether the Kingsmill $520,000 item is included in the 2017 True-Up and 2019 Annual Update, or to what extent the item impacts transmission rates. Furthermore, if the Kingsmill Injuries and Damages item is included in the transmission rates, then the Unfunded Reserve which is recorded in FERC Account 228.2 should also be included in the transmission rates as a reduction to rate base in the same manner as the Account 242 Reserves. The inclusion of these unfunded reserves, whether included in Account 242 or Account 228.2, would be consistent with FERC precedent. (See Preliminary Challenge Issue No. 4.)

4. Unfunded Reserves – Accrued Other Benefits.

Joint Customers submit a Preliminary Challenge to VEPCo's 2019 Annual Update and 2017 True-Up with respect to VEPCo's failure to reduce transmission rate base by the Unfunded Reserves for "Accrued Other Benefits" (Reserves for IBNR/FMNP Hospitalization Claims and Dental/Vision Claims).

In its response to Information Request No. ODEC/NCEMC-VEPCO 1.34(a & b), VEPCo indicated that it had recorded B/Y and E/Y balances of approximately $11.2 million and $10.8 million in Accrued Other Benefits reserve. However, VEPCo did not reflect the Accrued Other Benefits Unfunded Reserve amount as a reduction to rate base. In its response to Information Request No. ODEC/NCEMC-VEPCO 1.34.c, VEPCo stated:

> There is no ADIT related to the Reserve for Hospitalization Claims and the Reserve for Dental/Vision Claims. The tax treatment follows what is recorded on the books for these two items.

VEPCo's statement addressing ADIT, by itself, does not explain whether an Unfunded Reserve exists. That statement relates only to whether ADIT exists, since VEPCo states that book and tax treatments are the same. VEPCo has accrued reserves in FERC Account 228.3, which implies that customers have provided funds for Accrued Other Benefits to VEPCo prior to the Company being required to expend the funds. This accrual results in Unfunded Reserves. It is inconsistent and inequitable for VEPCo to not also include the FERC Account 228.3 Accrued Other Benefits reserves as a reduction to rate base in the transmission formula rates in the same manner as the Company includes the current portion from Account 242.

VEPCo should have recorded the Accrued Other Benefits unfunded reserves as a reduction to rate base to reflect the fact that customers are paying for accrued expenses that have not yet been incurred, and thus are providing cost-free capital to the utility for these amounts. FERC has recognized in multiple formula transmission rates that Accounts 232, 242, 228.1 – 228.4, 253 and 254 properly include "Unfunded Reserves" for labor/payroll related items, such as accrued vacation payable, accrued sick pay payable and accrued severance payable. In Xcel Energy Southwest Transmission ("XEST"), Docket No. ER14-2751-000, FERC stated:

> …we find that XEST's formula rate template should recognize unfunded operations and maintenance costs reserves as a form of cost-free financial capital to XEST. Utilities may accrue monies through charges to operation and maintenance expense to fund contingent liabilities, and such accrued reserves should be deducted from rate base until they are used to fund the liabilities because such reserves represent a cost-free form of financial capital from customers to utilities, not unlike accumulated deferred income taxes (ADIT) which are deducted from rate base. Accordingly, we direct XEST, in a compliance filing, to propose revisions to its formula rate template to credit any unfunded reserves against rate base.

Xcel Energy Southwest Transmission, 149 FERC ¶ 61,182, at P 97 (2014) ("*Xcel*"). The Operation and Maintenance (O&M) Expenses for XEST's transmission formula rates includes both Transmission expenses and A&G expenses.

VEPCO's formula already includes a line to reduce transmission rate base by removing Transmission O&M Reserves in Account 242. See Appendix A, Page 2, line 47 and Attachment 5 – Cost Support Excel rows 113 – 119. VEPCO should also reflect reductions to rate base for the non-current portions of Accrued Other Benefits and Long-Term Disability Unfunded Reserves in the transmission formula rates. [redacted]

5. Unfunded Reserves – Long-Term Disability Reserve.

Joint Customers submit a Preliminary Challenge to VEPCo's 2019 Annual Update and 2017 True-Up with respect to VEPCo's failure to reduce transmission rate base by the Unfunded Reserves for "Accrued Other Benefits" (Reserve for IBNR/FMNP Hospitalization Claims and Dental/Vision Claims) and "Noncurrent Liability – Long-Term Disability."

In its response to Information Request No. ODEC/NCEMC-VEPCO 1.34(a & b), VEPCo reflected that it had recorded B/Y and E/Y balances of approximately $22.5 million and $22.9 million in Noncurrent Liability - Long-Term Disability reserve. However, VEPCo did not reflect the Noncurrent Liability – Long-Term Disability Unfunded Reserve amount as a reduction to rate base. In its response to Information Request No. ODEC/NCEMC-VEPCO 1.34.c, VEPCo stated:

> ADIT related to the Worker's Compensation Reserve and the Long-term Disability Reserve is included in the transmission formula rate and is allocated based on the Wages & Salary Allocation Factor.

VEPCo's statement implies that the book and tax treatments are different but that fact, even if accurate, has no bearing on the issue of whether an Unfunded Reserve exists. VEPCo has accrued reserves in FERC Account 228.3, which implies that customers have provided funds for Noncurrent Liability – Long-Term Disability to VEPCo prior to the Company being required to expend the funds, resulting in Unfunded Reserves. It is inconsistent and inequitable for VEPCo to not also include the FERC Account 228.3 Noncurrent Liability – Long-Term Disability reserves in the transmission formula rates in the same manner as the Company includes the current portion from Account 242.

This is corroborated by FERC's recognition in *Xcel* that multiple formula transmission rates include in Accounts 232, 242, 228.1 – 228.4, 253 and 254 "Unfunded Reserves" for labor/payroll related items, such as accrued vacation payable, accrued sick pay payable and accrued severance payable. *See Xcel* at P 97 (cited above in Preliminary Challenge No. 4).

VEPCO's formula already includes a line to reduce transmission rate base by removing Transmission O&M Reserves in Account 242. See Appendix A, Page 2, line 47 and Attachment 5 – Cost Support Excel rows 113 – 119. Thus, VEPCO should also reflect reductions to rate base for the non-current portions of Accrued Other Benefits and Long-Term Disability Unfunded Reserves in the transmission formula rates. [redacted] The inclusion of these Unfunded Reserves, whether included in Account 242 or Account 228.3, would be consistent with FERC precedent. (See Preliminary Challenge Issue No. 4.)

6. Unfunded Reserves – Retention Bonus.

Joint Customers submit a Preliminary Challenge to VEPCo's 2019 Annual Update and 2017 True-Up with respect to VEPCo's failure to include a reduction to rate base for an Unfunded Reserve for the Accrued Retention Bonus. VEPCo should have included an Unfunded Reserve for the Accrued Retention Bonus, in the current 2019 Annual Update and 2017 True-Up, based on information provided in VEPCo's 2018 Annual Update, since there was an accrued balance as of 12/31/16. The Unfunded Reserve for the Accrued Retention Bonus should reflect the average of the accrued balances as of 12/31/17 and 12/31/16, which amounts should be deducted from rate base, using the Wage & Salary Allocation Factor. [redacted] The inclusion of these unfunded reserves, whether included in Account 242 or Account 232, would be consistent with FERC precedent. (See Preliminary Challenge Issue No. 4.)

7. Unfunded Reserves – Retirement – (FASB 87) VEPCO.

Joint Customers submit a Preliminary Challenge to VEPCo's 2019 Annual Update and 2017 True-Up with respect to VEPCo's failure to include a reduction to rate base for an Unfunded Reserve for the Retirement – (FASB 87) VEPCO. VEPCo should have included an Unfunded Reserve for the Retirement – (FASB 87) VEPCO, in the current 2019 Annual Update and 2017 True-Up, based on information provided in VEPCo's 2018 Annual Update, since there was an accrued balance as of 12/31/16. The Unfunded Reserve for the Retirement – (FASB 87) VEPCO should reflect the average of the accrued balances as of 12/31/17 and 12/31/16, which amounts should be deducted from rate base, using the Wage & Salary Allocation Factor. [redacted] The inclusion of these unfunded reserves, whether included in Account 242 or Account 232, would be consistent with FERC precedent. (See Preliminary Challenge Issue No. 4.)

8. Unfunded Reserves – SEPARATION/ERT VEPCO.

Joint Customers submit a Preliminary Challenge to VEPCo's 2019 Annual Update and 2017 True-Up with respect to VEPCo's failure to include a reduction to rate base for an Unfunded Reserve for the SEPARATION/ERT VEPCO. VEPCo should have included an Unfunded Reserve for the SEPARATION/ERT VEPCO, in the current 2019 Annual Update and 2017 True-Up, based on information provided in VEPCo's 2018 Annual Update, since there was an accrued balance as of 12/31/16. The Unfunded Reserve for the SEPARATION/ERT VEPCO should reflect the average of the accrued balances as of 12/31/17 and 12/31/16, which amounts should be deducted from rate base, using the Wage & Salary Allocation Factor. [redacted] The inclusion of these unfunded reserves, whether included in Account 242 or Account 232, would be consistent with FERC precedent. (See Preliminary Challenge Issue No. 4.)

9. Unfunded Reserves – Success Share Plan VEPCO.

Joint Customers submit a Preliminary Challenge to VEPCo's 2019 Annual Update and 2017 True-Up with respect to VEPCo's failure to include a reduction to rate base for an Unfunded Reserve for the Success Share Plan VEPCO. VEPCo should have included an Unfunded Reserve for the Success Share Plan VEPCO, in the current 2019 Annual Update and 2017 True-Up, based on information provided in VEPCo's 2018 Annual Update, since there was an accrued balance as of 12/31/16. The Unfunded Reserve for the Success Share Plan VEPCO should reflect the average of the accrued balances as of 12/31/17 and 12/31/16, which amounts should be deducted from rate base, using the Wage & Salary Allocation Factor. [redacted] The inclusion of these unfunded reserves, whether included in Account 242 or

Account 232, would be consistent with FERC precedent. (See Preliminary Challenge Issue No. 4.)

10. Unfunded Reserves – Workers Compensation – Insurance-Worker's Comp and Worker's Comp Claim.

Joint Customers submit a Preliminary Challenge to VEPCo's 2019 Annual Update and 2017 True-Up with respect to VEPCo's failure to reduce transmission rate base by the Unfunded Reserves for the "Insurance Worker's Comp" and "Worker's Comp Claim." In its response to Information Request Nos. ODEC/NCEMC-VEPCO 1.22, ODEC/NCEMC-VEPCO 1.34 and ODEC/NCEMC-VEPCO 2.23, VEPCo indicated that it had Noncurrent Liab – Workers Compensation Reserves in the amounts of $12,343,182 and $12,595,406 for 2017 and 2016, respectively. VEPCo records those reserves in FERC Account 228.3 – Accumulated Provision for Pensions and Benefits. VEPCo only reflects the current portion of the Workers Compensation Reserve (FERC Account 242) as a reduction to rate base (Attachment H-16A, Appendix A, Page 2 of 6, Line 47). It is inconsistent and inequitable for VEPCo to not also include the FERC Account 228.3 non-current workers compensation reserves as a reduction to rate base in the transmission formula rates in the same manner as the Company includes the current portion from Account 242. [redacted] The inclusion of these Unfunded Reserves, whether included in Account 242 or Account 228.3, would be consistent with FERC precedent. (See Preliminary Challenge Issue No. 4.)

11. Industry Association Dues – INP, NEI and Westinghouse Electric.

Joint Customers submit a Preliminary Challenge to VEPCo's 2019 Annual Update and 2017 True-Up with respect to VEPCo's inclusion in the formula transmission rates of the industry association dues for: (a) Institute of Nuclear Power ("INP"); (b) Nuclear Energy Institute ("NEI"); and (c) Westinghouse Electric Co. These amounts should only reflect dues and not production O&M expenses or expenses in support of research and development. Any INP, NEI and Westinghouse Electric amounts for production O&M expenses or expenses in support of production research and development should be recorded to production O&M accounts. VEPCo's responses in Information Request Nos. ODEC/NCEMC-VEPCO 1.24.a and ODEC/NCEMC-VEPCO 2.25.a relate to this issue. In its response to ODEC/NCEMC-VEPCO 2.25.a, VEPCo states:

> A detailed list and description of Industry Association Dues is not readily available by FERC Account. SAP is not currently configured to get this information easily. Supplying such data would require a significant amount of research and analysis branching over to multiple groups and departments of the Company. As such VEPCO objects to the question as it would require original work.

The response does not provide the requested clarity needed to resolve Joint Customers' concerns related to whether the industry association dues include only industry dues, and not production O&M or production research and development related expenses. The response is also inconsistent with VEPCo's response to a similar question on last year's Annual Update. In responding to NCEMC and ODEC's similar discovery in last year's review of VEPCo's 2018 Annual Update and 2016 True-Up, VEPCo was able to, and did provide a listing of all Industry Association Dues, including INP, NEI and Westinghouse that VEPCo had included in Industry Association Dues for calendar year 2016. (*See* ODEC/NCEMC-VEPCO 1.26 and Attachment ODEC-NCEMC Set 1-26 (RM), VEPCo's 2018 Annual Update and 2016 True-Up)

[redacted] All such amounts included in the 2017 True-Up should be treated in a similar manner to the EPRI O&M expenses, expenses for research and development, and dues that VEPCO has excluded from transmission formula rates in all Annual Updates because they are production-related costs. VEPCo, by allocating these three items to the transmission formula rates using the Wages and Salary Allocator, has overstated transmission expenses. To the extent any INP, NEI and Westinghouse production-related O&M, research and development or dues are included in the transmission formula rate for the 2017 True-Up, VEPCO should identify the costs and exclude them.

12. Industry Association Dues – EPRI.

Joint Customers submit a Preliminary Challenge to VEPCo's 2019 Annual Update and 2017 True-Up with respect to VEPCo's inclusion in the transmission O&M expenses included in the formula transmission rates of EPRI industry association dues for: (a) Account 560 in the amount of $98,265; (b) Account 566 in the amount of $6,053; and (c) Account 568 in the amount of $188,846, for a total of $293,164. (Information Request No. ODEC/NCEMC-VEPCO 1.25(b-e)). This treatment understates A&G expenses and overstates transmission O&M Expenses. VEPCo reflects an adjustment on Appendix A, Page 3, Line 73 to exclude all EPRI dues from A&G. That adjustment removes approximately $3.7 million from A&G, notwithstanding the fact that VEPCo had included only $3.4 million in EPRI expenses in that line item. (Information Request No. ODEC/NCEMC-VEPCO 2.29) VEPCO then included some of the EPRI dues (as reflected above) in O&M expenses. These EPRI dues should have been recorded in A&G expenses rather than in O&M expenses. Recording the $293,164 in EPRI dues in transmission O&M accounts, and then including these same expenses in the adjustment to A&G on Appendix A, Page 3, Line 73, $23,659 ($293,164 x 8.0703%) results in a mismatch. Transmission O&M expenses are included at 100%, while A&G expenses are included at the Wages & Salaries Allocation Factor of 8.0703%. If VEPCo wishes to deduct the EPRI dues that are included in transmission O&M as a component of the total EPRI dues exclusion, from A&G, VEPCo should gross-up the $293,164 of EPRI dues included in O&M so that the net effect of excluding them from A&G would be the same as if they were removed from O&M. The EPRI dues recorded in O&M should be grossed-up to $3,632,631 ($293,164 / 8.0703%). The result of taking the grossed-up O&M-related EPRI dues of $3,632,631 out of A&G would result in the equivalent removal of $293,164 from O&M.

VEPCo's methodology results in a mismatch and results in Total Transmission O&M expenses on Attachment H-16A, Page 3 of 6, Line 85 being over-stated by approximately $269,500 and transmission revenue requirements being over-stated by approximately $273,800. VEPCo should either remove the $293,164 of EPRI dues included in transmission O&M

accounts from transmission O&M expense on Line 63 or Line 67, or the Company should gross-up the $293,164 EPRI dues recorded in transmission O&M accounts to reflect the Wage & Salary Allocator for A&G of 8.0703%, resulting in $3,632,631 being excluded from A&G instead of only $293,164 being excluded. Failure to gross up the amount in A&G results in only $23,659 of the total $293,164 being excluded from the Transmission Formula Rate, thus overstating the Transmission Formula Rate.

13. Virginia Department of Emergency Management.

Joint Customers submit a Preliminary Challenge to VEPCo's 2019 Annual Update and 2017 True-Up with respect to VEPCo's inclusion in the A&G expenses in the formula transmission rates of a $2,232,188 payment to the Commonwealth of Virginia Department of Emergency Management for radiological planning support (*i.e.*, monitoring and assistance, state allocation, equipment, etc.). This cost is related to VEPCO's production function and should be recorded in either FERC Account(s) 506, 524, 539, 549, 557 or a combination of such production plant accounts. Properly recording these expenses as production-related would ensure that the costs are properly excluded from transmission rates. A description of each account from the Code of Federal Regulations, 18, Part 101, Operation and Maintenance, Chart of Accounts follows:

> **FERC Account 506 – Miscellaneous Steam Power Expenses (Major only)** states:
>
> This account shall include the cost of *labor, materials used and expenses* incurred which are not specifically provided for or are *not readily assignable to other steam generation operation expense accounts.* [*Emphasis* added]
>
> **FERC Account 524 – Miscellaneous Nuclear Power Expenses (Major only)** states:
>
> This account shall include the cost of *labor, materials used and expenses* incurred which are not specifically provided for or are *not readily assignable to other nuclear generation operation expense accounts.* [*Emphasis* added]
>
> **FERC Account 539 – Miscellaneous Hydraulic Power Generation Expenses (Major only)** states:
>
> This account shall include the cost of *labor, materials used and expenses* incurred which are not specifically provided for or are *not readily assignable to other hydraulic generation operation expense accounts.* [*Emphasis* added]
>
> **FERC Account 549 – Miscellaneous Other Power Generation Expenses (Major only)** states:
>
> This account shall include the cost of *labor, materials used and expenses* incurred in the operation of other power generating stations which are not specifically

> provided for or are *not readily assignable to other generation expense accounts.* [*Emphasis* added]

FERC Account 557 – Other Expenses states:

> This account shall include *any production expenses* including expenses incurred directly in connection with the purchase of electricity, which are *not specifically provided for in other production expense accounts*. [*Emphasis* added]

VEPCo's response to Information Request No. ODEC/NCEMC-VEPCO 1.24c does not remedy Joint Customers' concern regarding this expense. In that response, VEPCo stated:

> These are fees for radiological planning support at the state level and do not relate to a formal rate case.

Even if these fees are not related to a formal rate case (which would have resulted in the costs being recorded in FERC Account 928), they are *miscellaneous expenses* related to the radiological planning support for the *production function* and therefore are appropriately reflected in one, or a combination of, the above FERC production O&M accounts. VEPCo should exclude the Virginia Department of Emergency Management fees from the transmission formula rate.

14. DES Support Costs – Accounts 920, 921, 926 and 930.2.

Joint Customers submit a Preliminary Challenge to VEPCo's 2019 Annual Update and 2017 True-Up with respect to VEPCo's inclusion of unsupported DES Support Costs recorded in FERC Accounts 920, 921, 926 and 930.2. VEPCo responded to Information Request Nos. ODEC/NCEMC-VEPCO 2.14.(a & b); ODEC/NCEMC-VEPCO 2.15.a; ODEC/NCEMC-VEPCO 2.24.a; and ODEC/NCEMC-VEPCO 2.26 regarding this issue. Those responses state:

> A detailed transaction list of DES Support costs is not available by FERC Account. DES support costs are available by FERC Account or by Service.

> A detailed list and description of support services is not available by FERC Account. Support costs are available by either FERC Account or by Service but cannot be reconciled between the two.

> A detailed transaction list of Support Costs is not available by FERC Account. DES support costs are available by either FERC Account or by Service but cannot be reconciled between the two.

> A detailed transaction list of DES Support costs is not available by FERC Account. DES support costs are available by FERC Account or by Service but cannot be reconciled between the two.

These responses appear to contradict themselves. The first sentence in each states DES Support costs are not available by FERC Account and the second sentence states they are available by FERC Account or they are available by service. However, VEPCo does not provide either the FERC Account or the Service in response to the inquiry. Nevertheless, VEPCo was able to provide detailed list of individual items related to other discovery requests, *e.g.*, Information Request Nos. ODEC/NCEMC-VEPCO 2.6 through 2.10.

VEPCo should provide the DES support costs by Service provided, including transaction amounts. Without the detailed information regarding the services provided, Joint Customers cannot determine whether the DES Support services have been properly recorded to the appropriate FERC Accounts, or whether there are any DES support costs that should have been classified to non-transmission related expense accounts. VEPCo should also provide the DES support costs that have been recorded to each FERC Account that is included in the 2017 True-Up, and provide a reconciliation between the two, or provide a detailed explanation for why that reconciliation cannot be provided.

15. Industry Association Dues - Chamber of Commerce Sponsorships/Dues and Civic Corporate Stewardships.

Joint Customers submit a Preliminary Challenge to VEPCo's 2019 Annual Update and 2017 True-Up, with respect to VEPCo's inclusion in the formula transmission rates of Chamber of Commerce Sponsorships/Dues and Civic Corporate Stewardships recorded in FERC Account 930.2, or recorded in any other O&M or A&G account which is included in the formula transmission rates. VEPCo responded to Information Request Nos. ODEC/NCEMC-VEPCO 1.24.a and ODEC/NCEMC-VEPCO 2.25.a regarding questions concerning these Industry Association Dues. The response to ODEC/NCEMC-VEPCO 1.24.a states:

> A detailed list and description of Industry Association Dues is not readily available by FERC Account. SAP is not currently configured to get this information easily. Supplying such data would require a significant amount of research and analysis branching over to multiple groups and departments of the Company. As such VEPCO objects to the question as it would require original work.

This response does not provide the clarity needed to resolve Joint Customers' concerns. The response is also inconsistent with VEPCo's responses to similar discovery in last year's review of VEPCo's 2018 Annual Update and 2017 True-Up. In that annual update review process, VEPCo provided a listing of all Industry Association Dues by vendor and all Chambers of Commerce expenses, including the amounts per each entity to whom VEPCo paid Industry Association Dues. (*See* ODEC/NCEMC-VEPCO 2.9 and Attachment ODEC-NCEMC Set 2-09 (RM), as well as ODEC/NCEMC-VEPCO 1.26 and Attachment ODEC-NCEMC Set 1-26 (RM) of VEPCo's 2018 Annual Update and 2016 True-Up) The Commission has routinely required exclusion of Chamber of Commerce Membership/Sponsorships/Dues and Civic Corporate Stewardships from formula transmission rates because these expenses should be recorded in the unrecoverable Account 426.5, Other Deductions.[1] The National Association of Regulatory Utility Commissioners Interpretation No. 49, also provides that social associations are chargeable to Account 426.5, Other Deductions.[2]

To the extent any Chamber of Commerce Sponsorships/Dues and any other Civic Corporate Stewardships are included in the transmission formula rate, VEPCO should identify the costs and exclude them.

16. Account 921 – Office Supplies & Expenses – Legal Services.

Joint Customers submit a Preliminary Challenge to VEPCo's 2019 Annual Update and 2017 True-Up with respect to VEPCo's inclusion in the formula transmission rates of Legal Services recorded in FERC Account 921. VEPCo's response to Information Request No. ODEC/NCEMC-VEPCO 2.16 states:

> The legal services noted were related to fees and expenses primarily from outside services to remedy certain issues to VEPCO customers metering rebilling and refund plan which were originally mapped to FERC Account 923.

This response provided some additional clarity regarding this issue, which Joint Customers appreciate. However, the response did not resolve Joint Customers' concerns. Based on VEPCo's response, the Legal Services provided were related to "customers metering rebilling and refund plan." This description indicates that these legal expenses should have been recorded in FERC Account 903 – Customer records and collection expenses. The Code of Federal Regulations, 18, Part 101, Operation and Maintenance, Chart of Accounts for FERC Account 903 states:

> This account shall include the cost of labor, materials used and expenses incurred in work on customer applications, orders, credit investigations, **billing and accounting**, collections and **complaints**. [Bold Added]

VEPCo's description indicates that these legal fees are related to customer billing and accounting, and also potentially to customer complaints. VEPCo should provide a detailed list of all the legal expense transactions that are recorded in FERC Account 921 and reconcile those transactions to the vendor that provided the services. Given the capabilities of current general ledger software packages, VEPCo's SAP general ledger software system should not be so constrictive that VEPCo cannot provide the information needed to support its basis to record these legal services cost in Account 921. The reports that SAP general ledger software generates should be able to easily provide for the listing of transactions by service, expense type and description, vendor, etc. In previous annual update reviews VEPCo was able to provide the information requested here through other SAP modules (*i.e.,* Accounts Payable, FI, FERC, etc.)

[1] (*See Potomac-Appalachian Transmission Highline, LLC, PJM Interconnection, L.L.C.* 158 FERC at 61,050; and *See Pacific Power & Light Co.* 11 FERC at 61,104 (requiring payments to community, social, and service organizations to be recorded in 426 Accounts)).
[2] National Association of Regulatory Commissioners, Committee on Accounts, *Interpretations of Uniform System of Accounts for Electric, Gas & Water Util's*, Interpretation No. 49, issued January 1974.

In the absence of any information that would shed more light on the nature of these expenses, VEPCo should have recorded these costs in FERC Account 903 and the total legal fees included in Account 921 should be removed from the formula transmission rate. If VEPCo included legal fees related to VEPCO customers metering rebilling and refund plan in Account 923 in 2016, this issue would also be applicable to the VEPCo 2016 True-Up for potential refunds.

17. Outside Services Employed – Account 923 – Contractor Services, Consultant Services, Contract Labor, DES Services, Legal Services, and Rent.

Joint Customers submit a Preliminary Challenge to VEPCo's 2019 Annual Update and 2017 True-Up with respect to VEPCo's inclusion in the formula transmission rates of approximately $24.1 million in contractor services, consultant services, contract labor, DES services, legal services and rent recorded to FERC Account 923 referenced from Information Request No. ODEC/NCEMC-VEPCO 1.19. VEPCo's responses to Information Request Nos. ODEC/NCEMC-VEPCO 2.17 through 2.22 proffer:

> See below for charges included in FERC 923 by type. The FERC ledger does not systematically maintain transactions by Vendor.
>
> A detailed list and description of services by type is not readily available by FERC Account. SAP is not currently configured to get this information easily. Supplying such data would require a significant amount of research and analysis branching over to multiple groups and departments of the Company. As such VEPCO objects to the question as it would require original work.
>
> A detailed transaction list of DES support costs is not available by FERC Account. DES support costs are available by FERC Account or by Service but cannot be reconciled between the two.

These responses provide some additional clarity regarding this issue, which Joint Customers appreciate, but do not resolve all Joint Customers' concerns. Based on VEPCo's responses Joint Customers still cannot determine whether each of the grouped expenses have been appropriately recorded in FERC Account 923. The Code of Federal Regulations, 18, Part 101, Operation and Maintenance, Chart of Accounts for FERC Account 923 states:

> A. This account shall include the fees and expenses of professional consultants and others for general services *which are not applicable to a particular operating function or to other accounts*. [Emphasis added]

VEPCo has not provided any information demonstrating that the contractor services, consultant services, contract labor, DES services, legal services and rent costs were (1) specifically related to general services; or (2) were specifically related to a particular operating function (*e.g.*, production, transmission, or distribution). By not providing support demonstrating that these grouped expenses were related to general services rather than specific functions, VEPCO has not demonstrated that the costs should be included in transmission rates.

It is possible that these grouped expenses were related to a specific operating function such as the production or distribution function, and thus should have been recorded in an expense account related to one of those functions. Alternatively, it is possible that the challenged group expenses such as the legal services may be related to settlements of employee labor disputes. In such a case, the legal expenses should have been recorded in FERC Account 426.5 – Other Deductions.

VEPCO should provide a detailed list of all the transactions that are recorded in FERC Account 923 and reconcile those transactions to the vendor that provided the services. Given the capabilities of current general ledger software, the SAP general ledger software system should not be so constrictive that VEPCo cannot provide the information to support its basis to record each of these grouped expenses (contractor services, consultant services, contract labor, DES services, legal services and rent) in Account 923. The reports that SAP general ledger software generates should be able to easily provide for the listing of transactions by service, expense type and description, vendor, etc. In previous annual update reviews VEPCo was able to provide the information through other SAP modules (*i.e.*, Accounts Payable, FI, FERC, etc.) All expenses that are determined to be applicable to a particular operating function or other accounts should be reclassified to the appropriate FERC Accounts for the particular operating function.

18. Surry-Skiffes Creek 500kV Line Materials and Supplies.

Joint Customers submit a Preliminary Challenge to VEPCo's 2019 Annual Update and 2017 True-Up with respect to the inclusion in FERC Account 154 – M&S, and thus in transmission rates, of the materials and supplies ("M&S") associated with the Surry-Skiffes Creek 500kV line. Based on VEPCo's 2018 Annual Update and 2016 True-Up review, where VEPCo stated in its response to Information Request No. ODEC-NCEMC 1.62:

> Skiffes Creek related materials and supplies not yet utilized for construction work in progress are reflected in the average Materials & Supplies balance included in the formula rate true-up for 2016, consistent with the treatment in the formula rate true-up for 2015. [redacted]

[redacted] Joint Customers' concern in this Challenge is identical to that discussed in the 2018 Annual Update challenge on this issue – VEPCO has inappropriately transferred facilities earmarked for a specific construction project back to M&S inventory instead of treating those facilities as part of Construction Work in Progress as required by Commission policy and regulations. [redacted] Joint Customers still oppose treatment of these facilities as M&S inventory and request that the Skiffes Creek M&S be reflected in FERC Account 107 – Construction Work in Progress for the current 2017 True-Up. Because VEPCo incorrectly recorded these facilities in M&S, the error should be corrected for each prior year true-up challenged, as is required under the formula rate implementation protocols.

19. Underground Transmission Costs.

Joint Customers submit a Preliminary Challenge to VEPCo's 2019 Annual Update and 2017 True-Up with respect to VEPCo's inclusion in the formula transmission rates of the incremental costs of certain underground projects associated with the ODEC and NCEMC's complaint in FERC Docket No. EL10-49-000, pending the outcome of the proceeding which is currently pending before the U.S. Court of Appeals for the District of Columbia Circuit. This issue is still outstanding from the Preliminary Challenges to VEPCo's 2016 True-Up and/or 2018 Annual Update. ODEC, NCEMC and NOVEC each reserves their right to seek such appropriate adjustments to not only VEPCo's 2017 True-Up and/or 2019 Annual Update, but also all outstanding Preliminary Challenges.

20. Account 566 - Miscellaneous Transmission Expenses.

Joint Customers submit a Preliminary Challenge to VEPCo's 2019 Annual Update and 2017 True-Up with respect to VEPCo's inclusion of certain Miscellaneous Transmission Expenses referenced from Information Request No. ODEC/NCEMC-VEPCO 2.6. 2.8, 2.9, and 2.10. VEPCo's responses to Information Request Nos. ODEC/NCEMC-VEPCO 2.6, 2.8, 2.9, and 2.10 identify certain expenses that are not fully supported. Joint Customers seek additional information regarding the nature of the work associated with these projects in order to better evaluate whether they should be included in the transmission O&M expenses:

Expense	S.BusAr	2.6 Value	2.8 Value	2.9 Value	2.10 Value
ET Location - Central - Commerce Road	1300	$535,037.29	$248,640.15	$192,000.00	$102,167.40
ET location- Western Raceway	1300	$526,864.40	$213,680.81	$106,512.00	$69,144.44
ET Location- Southern Roanoke Rapids	1300	$349,892.17	$330,554.01	$0	$147,969.10

21. Form 715 Cost Allocation.

Joint Customers submit a Preliminary Challenge to VEPCo's 2019 Annual Update and 2017 True-Up with respect to VEPCO's inclusion of costs allocated to the DVP Zone by PJM regarding "Form 715" projects, as determined in FERC Docket Nos. ER15-1344, ER15-1387 and other proceedings. The proceedings are currently pending before FERC on remand from the U.S. Court of Appeals for the District of Columbia Circuit, on a case brought by ODEC and VEPCo. ODEC, NCEMC and NOVEC each reserves their right to seek revisions to VEPCo's Annual Update(s) and True-Up(s) for all projects impacted by a final order in the proceedings.