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May 29, 2008

The Honorable Kimberly D. Bose
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

**Re: *Virginia Electric and Power Company*
Docket No. ER08-92-_____
Compliance Filing**

Dear Secretary Bose:

Virginia Electric and Power Company, doing business as Dominion Virginia Power ("Dominion") hereby submits for filing revised tariff sheets in Attachments H-16A and H-16B to PJM Interconnection, L.L.C.'s open-access transmission tariff ("OATT") in compliance with *Virginia Electric and Power Company*, 123 FERC ¶ 61,098 (2008) ("April 29 Order"). Dominion requests that the Commission permit the revised tariff sheets to become effective January 1, 2008, the effective date granted in the April 29 Order.¹

I. BACKGROUND

On October 25, 2007, as supplemented on January 10, 11 and 18, 2008 and February 29, 2008, Dominion filed revised tariff sheets to Attachment H-16 and Schedules 7, 8, and 12 of PJM's OATT to implement a transmission cost-of-service formula rate. The Commission's April 29 Order, *inter alia*, accepted Dominion's formula rate, as modified in the order, and directed Dominion to submit a compliance filing to include the modifications to Attachments H-16A and H-16B described below.

¹ April 29 Order, at P 82.

II. COMPLIANCE FILING

A. INTERESTED PARTY

In its April 29 Order, the Commission determined that a utility's efforts to resolve matters with its customers before resorting to a Section 206 complaint "may not impact the rights of any party which has standing to bring a complaint."² The Commission directed Dominion to revise its tariff to expand the definition of the term "Interested Party" to include all parties having standing under Section 206, pursuant to Dominion's commitment in its April 2, 2008 answer to protests.³

In compliance with the Commission's directive, Dominion proposes to revise the definition of "Interested Party" in section 1(b) of Attachment H-16B to include "any party having standing under Section 206 of the Federal Power Act."

B. SECTION 206 COMPLAINTS

The Commission determined that formula rates must allow for after-the-fact corrections and updates.⁴ In addition, the Commission determined that if an error is discovered after the parties use due diligence to ensure that correct data was used, the inputs to the formula must be corrected and the formula re-calculated to prevent parties from being overcharged or undercharged.⁵ The Commission directed Dominion to remove provisions: 1) prohibiting parties from raising in a Section 206 complaint any issues that it did not raise in its Preliminary Challenge;⁶ and 2) establishing a December 16 cut-off date for filing a Section 206 complaint.⁷

In compliance with the Commission's directives, Dominion proposes to revise section 3(b) and delete section 3(f) of Attachment H-16B to allow any Interested Party to file a Section 206 complaint in the event a Preliminary Challenge is not resolved.

² *Id.* at P 45.

³ *Id.* at P 45; "Virginia Electric and Power Company's Answer to Request for Rejection, Motion for Leave to Answer and Answer to Protest and Comments" filed on April 2, 2008 in Docket Nos. ER08-92-000, *et al.*, at p. 14.

⁴ April 29 Order, at P 46.

⁵ *Id.*

⁶ "Preliminary Challenge" is defined in Section 3.a of the Protocols.

⁷ April 29 Order, at P 46.

C. COMMENT PERIOD

As filed, Attachment H-16B provides that Dominion will post the proposed adjusted annual transmission revenue requirements (“ATRR”) and True-Up Adjustment for the previous calendar year by June 15, and requires parties to submit information requests on that posting by October 1.⁸ In its April 29 Order, the Commission determined that the October 1 date did not provide the parties sufficient time after the September 30 customer meeting.⁹ However, the Commission disagreed that parties need a time interval of 90 days as requested by certain parties.¹⁰ The Commission directed Dominion to make a compliance filing revising the October 1 date to provide a reasonable time interval after the customer meeting.¹¹

The proposed tariff sheets modify section 2(b) of Attachment H-16B to revise the October 1 date to October 25. In addition, Dominion has revised other due dates in Attachment H-16B in sections 1(c), 3(a), and 3(e) to be consistent with the change to October 25.

D. CAPITAL STRUCTURE

In its April 29 Order, the Commission determined that Dominion should use its actual capital structure in developing its rate of return instead of a projected capital structure.¹² The Commission directed Dominion to file revised tariff sheets to reflect the capital structure for 2006, as shown in its FERC Form No. 1 data.¹³

In compliance with the Commission’s directive, Dominion has included language in Note T of Attachment H-16A stating: “For the initial formula rate calculation, the projected capital structure shall reflect the capital structure from the 2006 FERC Form No. 1 data. For all other formula rate calculations, the projected capital structure and actual capital structure shall reflect the capital structure from the most recent FERC Form No. 1 data available.”

⁸ See Section 2a and 2b of the Protocols.

⁹ April 29 Order, at P 49.

¹⁰ *Id.*

¹¹ *Id.*

¹² *Id.* at P 73.

¹³ *Id.*

E. RETURN ON EQUITY (“ROE”)

In its April 29 Order, the Commission found that the appropriate ROE to be applied is 10.9 percent, plus the 50 basis point ROE adder for continued regional transmission organization membership,¹⁴ yielding a combined ROE of 11.4 percent.

In accordance with the Commission’s finding, Dominion proposes to replace its previously proposed ROE of 12.23 percent with 11.4 percent. This replacement is reflected in Line 125 on Substitute Original Sheet No. 314F.03 in Exhibit 3 to this filing.

III. LIST OF PERSONS ON WHOM THIS FILING IS BEING SERVED

In accordance with the Commission’s regulations, Dominion has served all parties included on the official service list in this proceeding. In addition, Dominion will make copies of this filing available for inspection at Dominion’s corporate headquarters in Richmond, Virginia. Also, on behalf of Dominion, PJM will serve a copy of this filing on all PJM Members (which include all affected transmission customers) and on all state utility regulatory commissions in the PJM Region by posting this filing on its website (www.PJM.com) and providing a link to such posting via e-mail. Dominion requests waiver of the requirement to serve this filing by mailing paper copies. Waiver of paper service is consistent with the Commission’s decision to establish electronic service as the default method of service on service lists maintained by the Commission Secretary.¹⁵

¹⁴ *Id.* at P 58.

¹⁵ *Electronic Notification of Commission Issuances*, Order No. 653, 70 Fed. Reg. 8,720 (Feb. 23, 2005), FERC Stats. & Regs. ¶ 31,176 (2005); *order on reh’g*, Order No. 653-A, 70 Fed. Reg. 21,330 (April 26, 2005), FERC Stats. & Regs. ¶ 31,178 (2005).

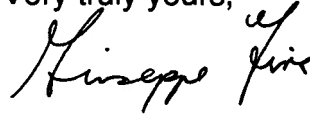
IV. CONTENTS OF FILING

The following documents are included in this filing:

1. Clean and Redlined version of Attachment H-16A, Sheet No. 314F.05 (Exhibit 1);
2. Clean and Redlined version of Attachment H-16B (Exhibit 2);
3. Clean and Redlined version of Attachment H-16A, Sheet No. 314F.03 (Exhibit 3);
and
4. A Certificate of Service.

We thank the Commission for its consideration of this filing. Please direct any questions or comments to the undersigned counsel.

Very truly yours,



Thomas L. Blackburn
Giuseppe Fina
Counsel for Virginia Electric and Power
Company, doing business as Dominion
Virginia Power

Exhibit 1

**Clean and Redlined Version of Attachment H-16A
Sheet No. 314F.05**

Notes

- A Electric portion only - VEPCO does not have Common Plant.
- B Excludes amounts for Generator Step-ups and Interconnection Facilities, when appropriate.
- C Includes Transmission portion only.
- D Excludes all EPRI Annual Membership Dues.
- E Includes all regulatory commission expenses.
- F Includes all safety related advertising included in Account 930.1.
- G Includes all regulatory commission expenses directly related to transmission service, RTO filings, or transmission siting itemized in Form 1 at 351.h.
- H The Form 1 reference indicates only the end-of-year balance used to derive the amount beside the reference. Each plant balance with a Form 1 reference will include the Form 1 balance in an average of the 13 month balances for the year. Each non-plant balance included in rate base with a Form 1 reference will include Form 1 balances in the calculation of the average of the beginning and end of year balances for the year. See notes Q and R below.
- I The currently effective income tax rate, where FIT is the Federal income tax rate; SIT is the State income tax rate, and $p =$ the percentage of federal income tax deductible for state income taxes. If the utility includes taxes in more than one state, it must explain in Attachment 5 the name of each state and how the blended or composite SIT was developed. Furthermore, a utility that elected to use amortization of tax credits against taxable income, rather than book tax credits to Account No. 255 and reduce rate base, must reduce its income tax expense by the amount of the Amortized Investment Tax Credit (Form 1, 266.8.f) multiplied by $(1/1-T)$. A utility must not include tax credits as a reduction to rate base and as an amortization against taxable income.
- J ROE will be supported in the original filing and no change in ROE will be made absent a filing at FERC. The basis point increase in ROE for new investment will be set at 100 basis points in Attachment 4 but not applied to determine any of the charges resulting from this formula absent a filing at FERC.
- K Education and outreach expenses relating to transmission, for example siting or billing.
- L As provided for in Section 34.1 of the PJM OATT.
- M Amount of transmission plant excluded from rates per Attachment 5.
- N Outstanding Network Credits is the balance of Network Facilities Upgrades Credits due Transmission Customers who have made lump-sum payments (net of accumulated depreciation) toward the construction of Network Transmission Facilities consistent with Paragraph 657 of Order 2003-A. Interest on the Network Credits as booked each year is added to the revenue requirement on Line 167.
- O Payments made under Schedule 12 of the PJM OATT that are not directly assessed to load in the Zone under Schedule 12 are included in Transmission O&M. If they are booked to Acct 565, they are included on Line 66.
- P Securitization bonds may be included in the capital structure.
- Q Calculated using 13 month average balance. Only beginning and end of year balances are from Form 1.
- R Calculated using average of beginning and end of year balances. Beginning and end of year balances are from Form 1.
- S The depreciation rates are included in Attachment 9.
- T For the initial formula rate calculation, the projected capital structure shall reflect the capital structure from the 2006 FERC Form No. 1 data. For all other formula rate calculations, the projected capital structure and actual capital structure shall reflect the capital structure from the most recent FERC Form No. 1 data available.

Issued By: Craig Glazer,
Vice President, Federal Government Policy
Issued On: May 29, 2008

Effective: January 1, 2008

Notes

- A Electric portion only - VEPCO does not have Common Plant.
- B Excludes amounts for Generator Step-ups and Interconnection Facilities, when appropriate.
- C Includes Transmission portion only.
- D Excludes all EPRI Annual Membership Dues.
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- I The currently effective income tax rate, where FIT is the Federal income tax rate; SIT is the State income tax rate, and p = the percentage of federal income tax deductible for state income taxes. If the utility includes taxes in more than one state, it must explain in Attachment 5 the name of each state and how the blended or composite SIT was developed. Furthermore, a utility that elected to use amortization of tax credits against taxable income, rather than book tax credits to Account No. 255 and reduce rate base, must reduce its income tax expense by the amount of the Amortized Investment Tax Credit (Form 1, 266.8.f) multiplied by (1/1-T). A utility must not include tax credits as a reduction to rate base and as an amortization against taxable income.
- J ROE will be supported in the original filing and no change in ROE will be made absent a filing at FERC. The basis point increase in ROE for new investment will be set at 100 basis points in Attachment 4 but not applied to determine any of the charges resulting from this formula absent a filing at FERC.
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Issued On: ~~October 25, 2007~~ May 29, 2008

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Exhibit 2

Clean & Redlined Version of Attachment H-16B

ATTACHMENT H-16B

FORMULA RATE IMPLEMENTATION PROTOCOLS

Section 1 Annual Updates

- a. No later than September 15 of each year, VEPCO shall cause to be posted on the www.PJM.com website the following information (the "Annual Update"):
 - (i) VEPCO's Annual Transmission Revenue Requirement ("ATRR"), rate for Network Integration Transmission Service ("NITS"), based on applying its projected costs, revenues and credits, other than those credits that will be distributed to customers pursuant to section 2 of Attachment H-16, for the next calendar year, plus its True-up Adjustment calculated pursuant to the Formula Rate set out in Attachment H-16A,
 - (ii) an estimate of the Network Service Peak Load of the Dominion Zone that will be used by the Transmission Provider to determine each Network Customer's Zone Network Load pursuant to Section 34.1 and Attachment H-16 for the next calendar year; and
 - (iii) an explanation of any change in VEPCO's accounting policies and practices that took effect in the preceding twelve months ending August 31 that is reported in Notes 3 and 4 of VEPCO's Securities and Exchange Commission Form 10-Q ("Material Accounting Changes"). To the extent there are Material Accounting Changes, VEPCO's Form 10-Q will be posted on PJM's website at the time of the Annual Update.
- b. Upon written request, VEPCO will make available to any entity that is or may become a customer taking transmission service on the VEPCO facilities operated by the Transmission Provider, any state regulatory commission with jurisdiction over the VEPCO facilities located in the area served by the Transmission Provider, and any party having standing under Section 206 of the Federal Power Act (an "Interested Party") a "workable" Excel file containing that year's Annual Update data.
- c. No later than September 30 of each year, VEPCO shall hold a public meeting to explain the Annual Update for the next calendar year. VEPCO shall modify the Annual Update to reflect any changes that it and the Interested Parties agree upon by no later than December 18, and shall cause the revised Annual Update to be posted on the www.PJM.com website no later than January 15. VEPCO shall cause the Annual Update, as revised pursuant to the procedures set out above, to be included in an informational filing with the Commission by no later than January 15. This filing will not require Commission action.

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- d. The ATRR and the Rate for Network Integration Transmission Service, determined pursuant to Section 1.a above and adjusted pursuant to Sections 2 and 3, below, shall be effective for the next calendar year.
- e. If after September 15, PJM determines the actual Network Service Peak Load for the Dominion Zone that will be used by the Transmission Provider to determine each Network Customer's Zone Network Load pursuant to Section 34.1 and Attachment H-16 for the next calendar year differs from the value posted pursuant to Section 1.a.ii., above, the Rate for Network Integration Transmission Service shall be adjusted to reflect the updated Network Service Peak Load and VEPCO shall cause an updated calculation of the Rate for Network Integration Transmission Service to be posted on the www.PJM.com website no later than fifteen (15) business days following the posting by PJM of the actual Network Service Peak Load for the Dominion Zone.

Section 2 Annual Review Procedures

- a. No later than June 15 of each year, VEPCO shall cause to be posted on the www.PJM.com website the following information:
 - (i) the adjusted ATRR for the previous calendar year, calculated by applying the methodology set out in Attachment H-16A Appendix A to VEPCO's actual costs for that calendar year; and
 - (ii) the True-Up Adjustment Before Interest for the previous calendar year, calculated pursuant to Attachment H-16A, Attachment 6.
- b. No later than October 25 of each year, any Interested Party may serve information requests on VEPCO concerning the adjusted ATRR for the previous calendar year and the True-Up Adjustment ("Information Requests"). Information Requests shall be limited to what is necessary to determine whether VEPCO has properly calculated the True-Up Adjustment and its components and the procedures in this Attachment H-16B. Information Requests shall not (i) otherwise be directed to ascertaining whether the Formula Rate is just and reasonable; (ii) solicit information concerning costs or allocations where the costs or allocation method have been determined by FERC or resolved by a settlement accepted by FERC or in the context of other True-up Adjustments, except that such information requests shall be permitted if they seek to determine if there has been a material change in circumstances. Interested Parties shall make good faith efforts to submit consolidated sets of information requests that limit the number and overlap of questions to the maximum extent practicable.
- c. VEPCO shall make a good faith effort to respond to the Information Requests within fifteen (15) business days of receipt of such requests. VEPCO may give reasonable priority to responding to Information Requests that satisfy the practicable coordination and consolidation provision of Section 2.b. above.

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Vice President, Federal Government Policy

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Section 3 Challenges to True-Up Adjustments

- a. No later than December 2 of each year, any Interested Party may notify VEPCO in writing of any specific challenges to any component of the most recently-posted True-Up Adjustment and any Material Accounting Change identified pursuant to Section 1.a(iii), above that affects the True-Up Adjustment ("Preliminary Challenge"). VEPCO shall promptly cause the Preliminary Challenge to be posted on the www.PJM.com website. VEPCO and the Interested Party shall make good faith efforts to resolve the Preliminary Challenge through negotiations. Any modification to the True-Up Adjustment or any Material Accounting Change that results from such negotiations and that is agreed upon no later than December 18 shall be promptly posted on the website and incorporated into the Annual Update for the next calendar year.
- b. Any Interested Party that has not resolved its Preliminary Challenge to a True-Up Adjustment or a Material Accounting Change that affects the True-Up Adjustment may file with the FERC a Complaint pursuant to 18 C.F.R. § 385.206.
- c. An Interested Party's failure to make a Preliminary Challenge with respect to a component of the True-Up Adjustment or a Material Accounting Change that affects that True-Up Adjustment shall not bar the Interested Party from making a Preliminary Challenge related to a subsequent True-Up Adjustment or to the same Material Accounting Change to the extent such Material Accounting Change affects a subsequent True-Up Adjustment.
- d. In any Complaint proceeding or proceeding initiated *sua sponte* by the FERC challenging a True-Up Adjustment or a Material Accounting Change, VEPCO shall bear the burden of proving that it has reasonably calculated the True-Up Adjustment and/or reasonably adopted and applied the Material Accounting Change.
- e. Any changes to the data inputs, including but not limited to revisions to VEPCO's FERC Form No. 1, resulting from Preliminary Challenges or proceedings before the FERC, including proceedings initiated pursuant to Section 3.b above and proceedings initiated *sua sponte* by the FERC, that are agreed upon after December 18 shall be incorporated into the Formula Rate and the True-Up Adjustment for the next calendar year that commences at least 30 days after the negotiations or proceedings become final. This reconciliation mechanism shall apply in lieu of mid-year adjustments, refunds or surcharges to rates. However, in the event that the Formula Rate is replaced by a stated rate for VEPCO, actual refunds or surcharges (with interest determined in accordance with 18 C.F.R. §35.19a) shall be made no later than thirty (30) days after the effective date of the stated rate established by FERC.

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Vice President, Federal Government Policy

Effective: January 1, 2008

Issued On: May 29, 2008

Section 4 Proceedings to Modify the Formula Rate or Stated Components of the Formula Rate

- a. Except as specifically provided herein, nothing herein shall be deemed to limit in any way the right of VEPCO to file unilaterally, pursuant to Section 205 of the Federal Power Act and the regulations thereunder, to modify the Formula Rate or stated components of the Formula Rate (including, but not limited to, the rate of return on equity, the depreciation rates and Post-Employment Benefits other than Pensions (“PBOP”)); or to replace the Formula Rate with a stated rate; or the right of any other entity to request such changes pursuant to Section 206 of the Federal Power Act and the regulations thereunder.

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 Vice President, Federal Government Policy
Issued On: May 29, 2008

Effective: January 1, 2008

ATTACHMENT H-16B
FORMULA RATE IMPLEMENTATION PROTOCOLS

Section 1 Annual Updates

- a. No later than September 15 of each year, VEPCO shall cause to be posted on the www.PJM.com website the following information (the "Annual Update"):
- (i) VEPCO's Annual Transmission Revenue Requirement ("ATRR"), rate for Network Integration Transmission Service ("NITS"), based on applying its projected costs, revenues and credits, other than those credits that will be distributed to customers pursuant to section 2 of Attachment H-16, for the next calendar year, plus its True-up Adjustment calculated pursuant to the Formula Rate set out in Attachment H-16A,
 - (ii) an estimate of the Network Service Peak Load of the Dominion Zone that will be used by the Transmission Provider to determine each Network Customer's Zone Network Load pursuant to Section 34.1 and Attachment H-16 for the next calendar year; and
 - (iii) an explanation of any change in VEPCO's accounting policies and practices that took effect in the preceding twelve months ending August 31 that is reported in Notes 3 and 4 of VEPCO's Securities and Exchange Commission Form 10-Q ("Material Accounting Changes"). To the extent there are Material Accounting Changes, VEPCO's Form 10-Q will be posted on PJM's website at the time of the Annual Update.
- b. Upon written request, VEPCO will make available to any entity that is or may become a customer taking transmission service on the VEPCO facilities operated by the Transmission Provider, ~~and~~ any state regulatory commission with jurisdiction over the VEPCO facilities located in the area served by the Transmission Provider, and any party having standing under Section 206 of the Federal Power Act (an "Interested Party") a "workable" Excel file containing that year's Annual Update data.
- c. No later than September 30 of each year, VEPCO shall hold a public meeting to explain the Annual Update for the next calendar year. VEPCO shall modify the Annual Update to reflect any changes that it and the Interested Parties agree upon by no later than ~~November 30~~ December 18, and shall cause the revised Annual Update to be posted on the www.PJM.com website no later than ~~December~~ January 15. VEPCO shall cause the Annual Update, as revised pursuant to the procedures set out above, to be included in an informational filing with the Commission by no later than ~~December~~ January 15. This filing will not require Commission action.

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Vice President, Federal Government Policy
Issued On: ~~October 25, 2007~~ May 29, 2008

Effective: January 1, 2008

- d. The ATRR and the Rate for Network Integration Transmission Service, determined pursuant to Section 1.a above and adjusted pursuant to Sections 2 and 3, below, shall be effective for the next calendar year.
- e. If after September 15, PJM determines the actual Network Service Peak Load for the Dominion Zone that will be used by the Transmission Provider to determine each Network Customer's Zone Network Load pursuant to Section 34.1 and Attachment H-16 for the next calendar year differs from the value posted pursuant to Section 1.a.ii., above, the Rate for Network Integration Transmission Service shall be adjusted to reflect the updated Network Service Peak Load and VEPCO shall cause an updated calculation of the Rate for Network Integration Transmission Service to be posted on the www.PJM.com website no later than fifteen (15) business days following the posting by PJM of the actual Network Service Peak Load for the Dominion Zone.

Section 2 Annual Review Procedures

- a. No later than June 15 of each year, VEPCO shall cause to be posted on the www.PJM.com website the following information:
 - (i) the adjusted ATRR for the previous calendar year, calculated by applying the methodology set out in Attachment H-16A Appendix A to VEPCO's actual costs for that calendar year; and
 - (ii) the True-Up Adjustment Before Interest for the previous calendar year, calculated pursuant to Attachment H-16A, Attachment 6.
- b. No later than October ~~15~~ of each year, any Interested Party may serve information requests on VEPCO concerning the adjusted ATRR for the previous calendar year and the True-Up Adjustment ("Information Requests"). Information Requests shall be limited to what is necessary to determine whether VEPCO has properly calculated the True-Up Adjustment and its components and the procedures in this Attachment H-16B. Information Requests shall not (i) otherwise be directed to ascertaining whether the Formula Rate is just and reasonable; (ii) solicit information concerning costs or allocations where the costs or allocation method have been determined by FERC or resolved by a settlement accepted by FERC or in the context of other True-up Adjustments, except that such information requests shall be permitted if they seek to determine if there has been a material change in circumstances. Interested Parties shall make good faith efforts to submit consolidated sets of information requests that limit the number and overlap of questions to the maximum extent practicable.
- c. VEPCO shall make a good faith effort to respond to the Information Requests within fifteen (15) business days of receipt of such requests. VEPCO may give reasonable priority to responding to Information Requests that satisfy the practicable coordination and consolidation provision of Section 2.b. above.

Issued By: Craig Glazer,
Vice President, Federal Government Policy

Effective: January 1, 2008

Issued On: ~~October 25, 2007~~ May 29, 2008

Section 3 Challenges to True-Up Adjustments

- a. No later than ~~November 1~~December 2 of each year, any Interested Party may notify VEPCO in writing of any specific challenges to any component of the most recently-posted True-Up Adjustment and any Material Accounting Change identified pursuant to Section 1.a(iii), above that affects the True-Up Adjustment ("Preliminary Challenge"). VEPCO shall promptly cause the Preliminary Challenge to be posted on the www.PJM.com website. VEPCO and the Interested Party shall make good faith efforts to resolve the Preliminary Challenge through negotiations. Any modification to the True-Up Adjustment or any Material Accounting Change that results from such negotiations and that is agreed upon no later than ~~November 30~~December 18 shall be promptly posted on the website and incorporated into the Annual Update for the next calendar year.
- b. Any Interested Party that has not resolved its Preliminary Challenge to a True-Up Adjustment or a Material Accounting Change that affects the True-Up Adjustment may, ~~no later than December 16 of each year,~~ file with the FERC a Complaint pursuant to 18 C.F.R. § 385.206. ~~Such Interested Party may not raise in its Complaint any matter that it did not raise in its Preliminary Challenge with respect to that True-Up Adjustment or Material Accounting Change. The FERC's Rules of Practice and Procedure shall govern any such Complaint.~~
- c. An Interested Party's failure to make a Preliminary Challenge with respect to a component of the True-Up Adjustment or a Material Accounting Change that affects that True-Up Adjustment shall not bar the Interested Party from making a Preliminary Challenge related to a subsequent True-Up Adjustment or to the same Material Accounting Change to the extent such Material Accounting Change affects a subsequent True-Up Adjustment.
- d. In any Complaint proceeding or proceeding initiated *sua sponte* by the FERC challenging a True-Up Adjustment or a Material Accounting Change, VEPCO shall bear the burden of proving that it has reasonably calculated the True-Up Adjustment and/or reasonably adopted and applied the Material Accounting Change.
- e. Any changes to the data inputs, including but not limited to revisions to VEPCO's FERC Form No. 1, resulting from Preliminary Challenges or proceedings before the FERC, including proceedings initiated pursuant to Section 3.b above and proceedings initiated *sua sponte* by the FERC, that are agreed upon after ~~November 30~~December 18 shall be incorporated into the Formula Rate and the True-Up Adjustment for the next calendar year that commences at least 30 days after the negotiations or proceedings become final. This reconciliation mechanism shall apply in lieu of mid-year adjustments, refunds or surcharges to rates. However, in the event that the Formula Rate is replaced by a stated rate for VEPCO, actual refunds or surcharges (with interest determined in accordance with 18 C.F.R. §35.19a) shall be made no later than thirty (30) days after the effective date of the stated rate established by FERC.

Issued By: Craig Glazer,
Vice President, Federal Government Policy

Effective: January 1, 2008

Issued On: ~~October 25, 2007~~May 29, 2008

- f. ~~The True Up Adjustment, any Material Accounting Change and the resulting ATRR shall become final and no longer subject to challenge pursuant to this Attachment H 16B or by any other means by the FERC or by any other entity on the later of (i) December 16 of the year in which they are posted if as of that date no entity has filed a Complaint pursuant to Section 3.b above and the FERC has not initiated a proceeding *sua sponte* to consider the True Up Adjustment or Material Accounting Change; or (ii) a final FERC order issued in response to a Complaint or a proceeding initiated by FERC to consider the True Up Adjustment.~~

Section 4 Proceedings to Modify the Formula Rate or Stated Components of the Formula Rate

- a. Except as specifically provided herein, nothing herein shall be deemed to limit in any way the right of VEPCO to file unilaterally, pursuant to Section 205 of the Federal Power Act and the regulations thereunder, to modify the Formula Rate or stated components of the Formula Rate (including, but not limited to, the rate of return on equity, the depreciation rates and Post-Employment Benefits other than Pensions (“PBOP”)); or to replace the Formula Rate with a stated rate; or the right of any other entity to request such changes pursuant to Section 206 of the Federal Power Act and the regulations thereunder.

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Exhibit 3

**Clean and Redlined Version of Attachment H-16A
Sheet No. 314F.03**

Depreciation Expense				
86	Transmission Depreciation Expense	(Notes A and S)	p336.7b&c/Attachment 5	\$ -
87	Less: GSU Depreciation		Attachment 5	0
88	Less Interconnect Facilities Depreciation		Attachment 5	0
89	Extraordinary Property Loss		Attachment 5	#DIV/0!
90	Total Transmission Depreciation		(Line 86 - 87 - 88 + 89)	#DIV/0!
91	General Depreciation	(Note A)	p336.10b&c&d/Attachment 5	0
92	Intangible Amortization	(Note A)	p336.1d&e/Attachment 5	0
93	Total		(Line 91 + 92)	0
94	Wage & Salary Allocation Factor		(Line 7)	#DIV/0!
95	General and intangible Depreciation Allocated to Transmission		(Line 93 * 94)	#DIV/0!
96	Common Depreciation - Electric Only	(Note A)	p336.11.b	0
97	Common Amortization - Electric Only	(Note A)	p336 or p336.11d	0
98	Total		(Line 96 + 97)	0
99	Wage & Salary Allocation Factor		(Line 7)	#DIV/0!
100	Common Depreciation - Electric Only Allocated to Transmission		(Line 98 * 99)	#DIV/0!
101 Total Transmission Depreciation & Amortization			(Line 90 + 95 + 100)	#DIV/0!
Taxes				
102	Taxes Other than Income		Attachment 2	#DIV/0!
103 Total Taxes Other than Income			(Line 102)	#DIV/0!
Long Term Interest				
104	Long Term Interest		p117.62c through 67c	
105	Less LTD Interest on Securitization Bonds	(Note P)	Attachment 8	0
106	Long Term Interest		(Line 104 - 105)	\$ -
107	Preferred Dividends	enter positive	p118.29c	
Common Stock				
108	Proprietary Capital		p112.16c,d/2	
109	Less Preferred Stock	enter negative	(Line 117)	
110	Less Account 219 - Accumulated Other Comprehensive Income	enter negative	p112.15c,d/2	
111	Common Stock		(Sum Lines 108 to 110)	\$ -
Capitalization				
112	Long Term Debt		p112.24c,d/2	
113	Less Loss on Reacquired Debt	enter negative	p111.81c,d/2	
114	Plus Gain on Reacquired Debt	enter positive	p113.61c,d/2	
115	Less LTD on Securitization Bonds	(Note P)	Attachment 8	0
116	Total Long Term Debt		(Sum Lines 112 to 115)	0
117	Preferred Stock		p112.3c,d/2	
118	Common Stock		(Line 111)	0
119	Total Capitalization		(Sum Lines 116 to 118)	\$ -
120	Debt %	Total Long Term Debt	(Line 116 / 119)	0.0%
121	Preferred %	Preferred Stock	(Line 117 / 119)	0.0%
122	Common %	Common Stock	(Line 118 / 119)	0.0%
123	Debt Cost	Total Long Term Debt	(Line 106 / 116)	0.0000
124	Preferred Cost	Preferred Stock	(Line 107 / 117)	0.0000
125	Common Cost	Common Stock	(Note J) Fixed	0.114
126	Weighted Cost of Debt	Total Long Term Debt (WCLTD)	(Line 120 * 123)	0.0000
127	Weighted Cost of Preferred	Preferred Stock	(Line 121 * 124)	0.0000
128	Weighted Cost of Common	Common Stock	(Line 122 * 125)	0.0000
129	Total Return (R)		(Sum Lines 126 to 128)	0.0000
130 Investment Return = Rate Base * Rate of Return			(Line 62 * 129)	#DIV/0!
Income Tax Rates				
131	FIT=Federal Income Tax Rate		Attachment 5	
132	SIT=State Income Tax Rate or Composite	(Note i)	Attachment 5	0.00%
133	p	(percent of federal income tax deductible for state purposes)	Per State Tax Code	0.00%
134	T	$T = 1 - (((1 - SIT) * (1 - FIT)) / (1 - SIT * FIT * p)) =$		0.00%
135	T / (1-T)			0.00%
ITC Adjustment				
136	Amortized Investment Tax Credit	(Note i)	Attachment 1	\$ -
137	T/(1-T)	enter negative	(Line 135)	0.00%
138	ITC Adjustment Allocated to Transmission		(Line 136 * (1 + 137))	\$ -
139	Income Tax Component =	$CIT = (T/(1-T)) * Investment Return * (1 - (WCLTD/R)) =$	(Line 135 * 130 * (1 - (128 / 129)))	#DIV/0!
140 Total Income Taxes			(Line 138 + 139)	#DIV/0!

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Depreciation Expense			
86	Transmission Depreciation Expense	(Notes A and S)	p336.7b&c/Attachment 5 \$ -
87	Less: GSU Depreciation		Attachment 5 0
88	Less Interconnect Facilities Depreciation		Attachment 5 0
89	Extraordinary Property Loss		Attachment 5 #DIV/0!
90	Total Transmission Depreciation		(Line 86 - 87 - 88 + 89) #DIV/0!
91	General Depreciation	(Note A)	p336.10b&c&d/Attachment 5 0
92	Intangible Amortization	(Note A)	p336.1d&e/Attachment 5 0
93	Total		(Line 91 + 92) 0
94	Wage & Salary Allocation Factor		(Line 7) #DIV/0!
95	General and Intangible Depreciation Allocated to Transmission		(Line 93 * 94) #DIV/0!
96	Common Depreciation - Electric Only	(Note A)	p336.11.b 0
97	Common Amortization - Electric Only	(Note A)	p336 or p336.11d 0
98	Total		(Line 96 + 97) 0
99	Wage & Salary Allocation Factor		(Line 7) #DIV/0!
100	Common Depreciation - Electric Only Allocated to Transmission		(Line 98 * 99) #DIV/0!
101 Total Transmission Depreciation & Amortization			(Line 90 + 95 + 100) #DIV/0!
Taxes Other than Income			
102	Taxes Other than Income		Attachment 2 #DIV/0!
103 Total Taxes Other than Income			(Line 102) #DIV/0!
Long Term Interest			
104	Long Term Interest		p117.62c through 67c 0
105	Less LTD Interest on Securitization Bonds	(Note P)	Attachment 8 0
106	Long Term Interest		(Line 104 - 105) \$ -
107	Preferred Dividends	enter positive	p118.23c
Common Stock			
108	Proprietary Capital		p112.16c,d/2
109	Less Preferred Stock	enter negative	(Line 117)
110	Less Account 219 - Accumulated Other Comprehensive Income	enter negative	p112.15c,d/2
111	Common Stock		(Sum Lines 108 to 110) \$ -
Capitalization			
112	Long Term Debt		p112.24c,d/2
113	Less Loss on Reacquired Debt	enter negative	p111.81c,d/2
114	Plus Gain on Reacquired Debt	enter positive	p113.61c,d/2
115	Less LTD on Securitization Bonds	(Note P) enter negative	Attachment 8 0
116	Total Long Term Debt		(Sum Lines 112 to 115) 0
117	Preferred Stock		p112.3c,d/2
118	Common Stock		(Line 111) 0
119	Total Capitalization		(Sum Lines 116 to 118) \$ -
120	Debt %	Total Long Term Debt	(Line 116 / 119) 0.0%
121	Preferred %	Preferred Stock	(Line 117 / 119) 0.0%
122	Common %	Common Stock	(Line 118 / 119) 0.0%
123	Debt Cost	Total Long Term Debt	(Line 106 / 116) 0.0000
124	Preferred Cost	Preferred Stock	(Line 107 / 117) 0.0000
125	Common Cost	Common Stock	(Note J) Fixed 0.1141229
126	Weighted Cost of Debt	Total Long Term Debt (WCLTD)	(Line 120 * 123) 0.0000
127	Weighted Cost of Preferred	Preferred Stock	(Line 121 * 124) 0.0000
128	Weighted Cost of Common	Common Stock	(Line 122 * 125) 0.0000
129	Total Return (R)		(Sum Lines 126 to 128) 0.0000
130 Investment Return = Rate Base * Rate of Return			(Line 62 * 129) #DIV/0!
Income Tax Rates			
131	FIT=Federal Income Tax Rate		Attachment 5 0.00%
132	SIT=State Income Tax Rate or Composite	(Note I)	Attachment 5 0.00%
133	p	(percent of federal income tax deductible for state purposes)	Per State Tax Code 0.00%
134	T	$T = 1 - ((1 - SIT) * (1 - FIT)) / (1 - SIT * FIT * p)$	0.00%
135	T / (1-T)		0.00%
ITC Adjustment			
136	Amortized Investment Tax Credit	(Note I) enter negative	Attachment 1 \$ -
137	T/(1-T)		(Line 135) 0.00%
138	ITC Adjustment Allocated to Transmission		(Line 136 * (1 + 137)) \$ -
139 Income Tax Component =		$CIT = (T/1-T) * Investment Return * (1 - (WCLTD/R)) =$	(Line 135 * 130 * (1 - (126 / 129))) #DIV/0!
140 Total Income Taxes			(Line 138 + 139) #DIV/0!

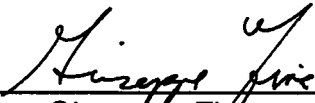
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CERTIFICATE OF SERVICE

I hereby certify that I have served this day copies of the foregoing on the official service list compiled by the Office of the Secretary in accordance with Rule 2010 of the Commission Rules of Practice and Procedure.

Dated at Washington, D.C. this 29th day of May 2008.


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