

**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  
2025 Annual Update and 2023 True-Up Adjustment**

**December 2, 2024**

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 2025 Annual Update and 2023 True-Up.

The Joint Customers sent VEPCo on December 2, 2024 a list of Resolved Issues and Preliminary Challenges associated with the 2025 Annual Update and 2023 True-Up of the formula rate. Because only the Preliminary Challenges are to be posted under the Formula Rate Implementation Protocols, this version reflects only the Preliminary Challenges submitted on December 2<sup>nd</sup>. Nevertheless, to the extent VEPCo disagrees with the Joint Customers’ assertion that a certain issue has been resolved, such issue will be considered a Preliminary Challenge and a Second Revised List of Preliminary Challenges will be submitted including the items moved from the Resolved List to the Preliminary Challenge list.

**A. OUTSTANDING PRELIMINARY CHALLENGE ISSUES**

**1. Increased Account 921 Office Supplies and Expenses – Increased Interest Rates.**

VEPCo appears to have included interest expenses in FERC Account 921, Office Supplies and Expenses. In response to Information Request No. ODEC/NCEMC/NOVEC-VEPCO 1.31, VEPCo stated:

The variance is primarily related to the absence of a (\$4M) write down in Q3 2022 and (\$7M) due to the remapping of expenses/WBS to the proper operations O&M accounts offset by an **increase of \$7M primarily due to the impact of increased interest rates in 2023**. [Emphasis added]

In response to Information Request No. ODEC/NCEMC/NOVEC-VEPCO 2.12, including the Company’s “Attachment ODEC\_NCEMC\_NOVEC-VEPCO Set 2.12 (CS).xlsx,” the

Company reiterated its statement in the response to Information Request No. ODEC/NCEMC/NOVEC-VEPCO 1.31 when VEPCo stated:

Offset by an overall \$10M increase in service company costs attributable to a **\$7M increase due to the impact of increased interest rates in 2023** and \$3.4M increase in IT related costs. [Emphasis added]

The responses provided by VEPCo to the above information requests do not provide the necessary information for the Joint Customers to determine to what the “\$7M increase due to the impact of increased interest rates in 2023” pertains. The vague discussion of this increase in interest rates would imply or infer that VEPCo has included “interest expenses” in FERC Account 921. Account 921 should not contain any “interest expenses or charges.” Interest expenses which are not related to either Interest on Long-Term Debt (Account 427) or Interest on Debt to Assoc. Companies (Account 430) are to be recorded in FERC Account 431 – Other Interest Expense.

Therefore, Joint Customers challenge VEPCo’s recording of these “\$7M increase due to the impact of increased interest rates in 2024” interest expenses to FERC Account 921, as well as, any other interest expenses which the Company has recorded to Account 921. The inclusion of such interest expenses in the calculation of the allocation of A&G expenses which would be included in both the VEPCo Formula Rate 2025 Annual Update and 2023 True-Up is inappropriate under the Uniform System of Accounts and overstates the formula rates. (See also Outstanding Preliminary Challenge Issue #9 for a separate DES interest expense recorded to FERC Account 921 challenge.)

## **2. Project Specific Liability Policies Related to CVOW Recorded in FERC Account 925.**

VEPCo appears to have recorded approximately \$4.8M (\$3,375,719.03 + \$1,375,000.00) related to the Coastal Virginia Offshore Wind (“CVOW”) project specific liability policies in FERC Account No. 925 – Injuries and Damages in response to Information Request No. ODEC/NCEMC/NOVEC-VEPCO 1.35, Information Request No. ODEC/NCEMC/NOVEC-VEPCO 2.14, the Company’s “Attachment ODEC\_NCEMC\_NOVEC-VEPCO Set 1.35-36 (JP).xlsx,” the Company’s “Attachment ODEC\_NCEMC\_NOVEC-VEPCO Set 2.14(A) (NG).pdf,” and the Company’s “Attachment ODEC\_NCEMC\_NOVEC-VEPCO Set 2.14(B) (NG).pdf.” However, when Joint Customers reviewed the Company’s attachments “Attachment ODEC\_NCEMC\_NOVEC-VEPCO Set 2.14(A) (NG).pdf” and the Company’s “Attachment ODEC\_NCEMC\_NOVEC-VEPCO Set 2.14(B) (NG).pdf,” each invoice was for the Policy Period “11/01/23 to 04/17/27,” which is a forty-one and one half month (“41.5” months) policy period and therefore only two months (November and December, 2023) amortization expense should have been recorded in Account 925 or approximately \$228,950.

The Joint Customers therefore believe that VEPCo has inadvertently included 100% of the CVOW Project Specific Liability Policies in the approximate amount of \$4.8M in FERC Account

925 in 2023 in lieu of only two months or approximately \$0.229M of expense based on the Policy Period of 41.5 months and challenge the Company's CVOW expense level in Account 925 in both the VEPCo Formula Rate 2025 Annual Update and 2023 True-Up.

### **3. Corporate Office Building Lease, Account 931 – Huge Increase in the Average Lease Interest Rate.**

VEPCo in response to Information Request No. ODEC/NCEMC/NOVEC-VEPCO 1.44 appears to have recorded an additional \$2.1M increase in Account 931, Rents “primarily driven by an increase in rent expense charged for the corporate office building at 600 Canal Place.” The Company stated: “[t]he average rate on the lease increased 1.15% in 2022 to 4.93% in 2023.” Joint Customers requested in Information Request No. ODEC/NCEMC/NOVEC-VEPCO 2.16(a) that the Company please provide a “[c]opy of the lease agreement, including any amendments or addendums for the corporate office building at 600 Canal Place;” and VEPCo responded: “[t]he Company objects to producing a copy of the Corporate Office Building Lease, including any amendments or addendums, as it is confidential and proprietary.”

Therefore, the Joint Customers are unable to determine whether the Corporate Office Building Lease expense for 2023 is appropriate. The Company has not provided any supporting documentation that the Corporate Office Building Lease includes quarterly adjustments to the lease interest rate component, to be applied as of February, May, August, and November of each year. Additionally, the Company has not provided any supporting documentation for either the representative LIBOR rates utilized for each quarter or the “Margin” percentages utilized are appropriate and tie to the Corporate Office Building lease agreement.

Joint Customers, therefore, challenge the inclusion of these additional Corporate Office Building Lease interest expenses until such time as the Joint Customers receive the requested information from the Corporate Office Building lease agreement and the specific basis for each LIBOR rate and the “Margin” percentages utilized in both the VEPCo Formula Rate 2025 Annual Update and 2023 True-Up. Joint Customers will sign a “Confidential Agreement,” if required by VEPCo, to receive a copy of the Corporate Office Building Lease agreement and the supporting documents for the quarterly LIBOR rates and the “Margin” percentages utilized in the agreement.

### **4. Grid Transformation CIP Cap Software Recorded to FERC Account No. 303.**

VEPCo in responses to Information Request No. ODEC/NCEMC/NOVEC-VEPCO 1.55, Information Request No. ODEC/NCEMC/NOVEC-VEPCO 2.20, and the Company's attachment “Attachment ODEC\_NCEMC\_NOVEC-VEPCO Set 1.55(SG).xlsx,” appear to have recorded the “new” Grid Transformation CIP CAP Software to FERC Account No. 303 with the Company's statements:

“Grid Transformation CIP Cap Software” represents the capital software costs associated with the CIP project, or Customer Information Platform. **The CIP**

**project replaced legacy applications associated with the customer experience such as the Customer Information System (“CIS”), the Meter Data Management (MDM) system, and customer portals at Dominion Energy Virginia.** The capital software costs include costs for the new CIS, a new MDM, customer portals and ancillary software supporting functions such as exception management and taxes. [Emphasis added]

**Similar to the replaced legacy applications,** the new software systems and platform support various Company functions. A few uses related to the transmission wholesale function include Wholesale Customer Billing and energy allocation within the Dominion zone. A key input is meter data from the new CIP systems which includes readings for Dominion Energy customers, Retail Choice customers, and Wholesale Delivery Points. This data is essential for calculating Wholesale Bills. In addition, the meter data for accounts and delivery points across the Dominion zone is used in the energy calculation and allocation, as submitted to PJM (Energy Settlements). This encompasses all suppliers (Network Customers), including Wholesale Load Serving Entities (“LSEs), Retail Choice LSEs and Dominion LSE. [Emphasis added]

Joint Customers’ concern is that the Company does not appear to have retired the “legacy applications associated with the customer experience such as the Customer Information System (“CIS”), the Meter Data Management (MDM) system, and customer portals at Dominion Energy Virginia,” and therefore are earning a return on both the **new** “Grid Transformation CIP Cap Software” and the “replaced” legacy applications. Therefore, Joint Customers challenge the inclusion of both the new “Grid Transformation CIP Cap Software” and the “replaced legacy applications associated with the customer experience such as the Customer Information System (“CIS”), the Meter Data Management (MDM) system, and customer portals at Dominion Energy Virginia” in the determination of plant-in-service in rate base in both the VEPCo Formula Rate 2025 Annual Update and 2023 True-Up.

## **5. Substation Work Order Recorded to FERC Account 350.**

VEPCo has included (1) work order (W.O.) associated with installing a substation in FERC Account 350 and in the VEPCo Formula Rate, 2025 Annual Update and 2023 True-Up. In the Company’s response, Work Order 992854.4 was given the description of “Interconnection Sub-230kV Delivery” and the “long description” of “Interconnection Sub.” (Information Request No. ODEC/NC EMC/NOVEC-VEPCO 1.58 and the Company’s attachment “Attachment ODEC\_NC EMC\_NOVEC-VEPCO Set 1.58(SG).xlsx,” tab “Attachment Set 1.58.”)

Joint Customers challenge the inclusion of this work order until further information is provided by the Company on the nature of this “Interconnection Sub” including voltages, purpose, and scope of the work order in the amount of \$2,713,130.67.

## **6. Oil Containment Work Order Recorded to FERC Account 352.**

VEPCo has included one (1) work order (W.O.) associated with installing oil containment at a station in the amount of \$4,796,516.32 in FERC Account 352 and in the VEPCo Formula Rate, 2025 Annual Update and 2023 True-Up. In the Company's response, Work Order 948841.V1 was given the description of "Suffolk ? Install Oil Containment" and "long description" of "Suffolk - Install Oil Containment." (Information Request No. ODEC/NCEMC/NOVEC-VEPCO 1.58 and the Company's attachment "Attachment ODEC\_NCEMC\_NOVEC-VEPCO Set 1.58(SG).xlsx," tab "Attachment Set 1.58.")

Joint Customers challenge the inclusion of this work order until further information is provided by the Company on the nature of the "oil containment" and the nature of the station it was installed at.

## **7. Transformer Work Orders Recorded to FERC Account 353.**

VEPCo has included two (2) work orders (W.O.) associated with transformer replacements at two substations totaling \$ 7,772,220.72 in FERC Account 353 and in the VEPCo Formula Rate, 2025 Annual Update and 2023 True-Up. In the Company's response, Work Order 948552.V1 was given the description of "Altavista – R/P TX #4" and the "long description" of "TRANSFORMER, POWER." Work Order 48-3549-A.V1 was given the description and "long description" of "Shellhorn Sub - I/S Tx #4 112MVA." (Information Request No. ODEC/NCEMC/NOVEC-VEPCO 1.58 and the Company's attachment "Attachment ODEC\_NCEMC\_NOVEC-VEPCO Set 1.58(SG).xlsx," tab "Attachment Set 1.58.")

Joint Customers challenge the inclusion of these work orders until further information is provided by the Company on the primary and secondary voltages of these transformers, as well as if these transformers are Generator Step-Ups (GSUs).

## **8. Innsbrook Facility Expenses Recorded to FERC Account 352.**

VEPCo has included five (5) work orders (W.O.) associated with the Innsbrook Facility totaling \$40,151,352.55 in FERC Account 352 and in the VEPCo Formula Rate, 2025 Annual Update and 2023 True-Up. (Information Request No. ODEC/NCEMC/NOVEC-VEPCO 2.22.g-j and the Company's attachment "Attachment ODEC\_NCEMC\_NOVEC-VEPCO Set 2.21-2.24 (LB)(TJC).xlsx," tab "2.22," and tab "2.23.")

Due to the nature of this facility seeming to include employees of various different functions, Joint Customers challenge the inclusion of these work orders as Transmission related pending more information which clarifies that there are no employees working in the parts of the Innsbrook facility represented by these W.O.s who are employed in functions other than Transmission (i.e. Production, Distribution, etc. . . .)

#### **9. “Pumping Plant” Work Order Recorded to FERC Account 358.**

VEPCo has included one (1) work order (W.O.) associated with a “pumping plant” in the amount of \$2,618,914.55 in FERC Account 358 and in the VEPCo Formula Rate, 2025 Annual Update and 2023 True-Up. In the Company’s Response, Work Order 81691.V1 was given the description “Line 248 & 2112 RP Pmp Plts Carlyle Sth” and the “long description” of “PUMPING PLANT, COMPLETE.” (Information Request No. ODEC/NCEMC/NOVEC-VEPCO 1.58 and the Company’s attachment “Attachment ODEC\_NCEMC\_NOVEC-VEPCO Set 1.58(SG).xlsx,” tab “Attachment Set 1.58.”)

Joint Customers challenge the inclusion of this work order until further information is provided by the company to describe the nature of the “pumping plant” work, where this work was performed, and how it relates to transmission.

#### **10. EV Chargers and Charging Stations recorded to FERC Account 390 and FERC Account 394.**

VEPCo has recorded a combined total of \$926,769 in EV Chargers and Charging Stations in 2023 to FERC Account 390 in the amount of \$108,509 and FERC Account 394 in the amount of \$818,220. The Company, in response to Information Request No. ODEC/NCEMC/NOVEC-VEPCO 2.26, which requested VEPCo to state whether these certain EV Chargers and Charging Stations were “only” for Company owned vehicles usage or if they were also made available to employees, customers and visitors, reflected in the Company’s attachment “Attachment ODEC\_NCEMC\_NOVEC-VEPCO Set 2.26(SG).xlsx,” tab Attachment 2.26 that all the certain EV Chargers and Charging Stations were available not only to the Company owned vehicles usage, but also to the employees vehicle usage.

The Joint Customers challenge the inclusion of these certain EV Chargers and Charging Stations to be allocated to the transmission customers through both the VEPCo Formula Rate 2025 Annual Update and 2023 True-Up as they are not exclusively for Company owned vehicles usage. VEPCo should demonstrate how the employees, whose vehicles use either or both the EV Chargers and Charging Stations, are billed for their usage and furthermore, how the revenues from the employees personal usage are reflected as credits to both the VEPCo Formula Rate 2025 Annual Update and 2023 True-Up. (See also Information Request No. ODEC/NCEMC/NOVEC-VEPCO 1.61 and the Company’s attachment “Attachment ODEC\_NCEMC\_NOVEC-VEPCO Set 1.61(SG).xlsx.”)

#### **11. Attachment 3 – Revenue Credit Workpaper, Line 14b, Additional Costs due to WBS Settlement Activity.**

VEPCo has proposed to increase the recorded original Attachment 3 – Revenue Credit Workpaper, Line 14b, “Costs associated with revenues in line 14a” from the amount of \$3.583 million to \$5.081 million. In response to Information Request No. ODEC/NCEMC/NOVEC-

VEPCO 1.76 and the Company's attachment "Attachment ODEC\_NCEMC\_NOVEC-VEPCO Set 1.76(DMW&RH).xlsx," the Company stated:

Costs associated with revenue in line 14a in the amount of \$3.583 million reflect total costs solely in GL accounts: 8360001, 8360003, and 8360029. Because there is WBS settlement activity that triggers allocation of costs among various GL accounts, there are additional costs disbursed to numerous other GL accounts on the income statement. Due to this occurrence, a revised 2023 Annual Transmission Revenue Requirement will be submitted with an updated Attachment 3 to incorporate the line 14a revision totaling \$5.081 million, including the additional costs disbursed in various accounts on the income statement.

Joint Customers challenge the Company's proposed revised 2023 Annual Transmission Revenue Requirement related to the inclusion of the additional WBS settlement activity costs of approximately \$1.498 million to \$1.542 million depending on whether the total costs of GL accounts 8360001, 8360003, and 8360029 is \$3.583 million or \$3.538 million. The Company did not provide any supporting documentation which delineated the basis for the inclusion of those WBS settlement activity costs at issue here, i.e., to what specific revenue items from Account 454 – Rent from Electric Property and/or Account 456 – Other Electric Revenues those specific settlement activity costs pertained and what specific activity costs were incurred. Additionally, VEPco failed to provide the specific GL accounts to which the WBS settlement activity costs were recorded, to eliminate the possibility that those additional WBS settlement activity costs were already included in the O&M expenses allocated to transmission on Appendix A, Page 2, Line 85, resulting in double recovery by the Company. (See also Information Request No. ODEC/NCEMC/NOVEC-VEPCO 2.28 and the Company's attachments "Attachment ODEC\_NCEMC\_NOVEC-VEPCO Set 2.28 (DMW&DC)(1).xlsx" and "Attachment ODEC\_NCEMC\_NOVEC-VEPCO Set 2.28 (DMW&DC)(1).xlsx.")

## **12. Other Regulatory Assets – Deferred Workers Compensation Expense (182.3).**

VEPCo in responding to Information Request No. ODEC/NCEMC/NOVEC-VEPCO 2.29 and the Company's attachment "Attachment ODEC\_NCEMC\_NOVEC-VEPCO Set 2.29 (AD).xlsx," tab "a." appears to reflect for the Account 182.3 transaction item on Excel row 6, where the Offset FERC Account was also "Account 182.3," which does not appear to make sense.

Joint Customers challenge whether the Offset FERC Account is correct, and whether VEPco has properly reflected the WC Reserves Adjustment as a component of rate base in the transmission formula rates for both the VEPco Formula Rate 2024 Annual Update and 2022 True-Up. (See also Information Request No. ODEC/NCEMC/NOVEC-VEPCO 1.81.a, Company attachment "Attachment ODEC\_NCEMC\_NOVEC-VEPCO Set 1.81 (HT).xlsx," tab "a.")

### **13. Other Regulatory Assets – Accumulated Provision for Pensions and Benefits (228.3).**

VEPCo in responding to Information Request No. ODEC/NCEMC/NOVEC-VEPCO 2.29 and the Company's attachment "Attachment ODEC\_NCEMC\_NOVEC-VEPCO Set 2.29 (AD).xlsx," tab "d." appears to reflect for the Account 228.3 multiple transaction items at Excel rows 7 and 15-17, where the Offset FERC Account was also "Account 228.3," which does not appear to make sense.

Joint Customers challenge whether the Offset FERC Account is correct, and whether VEPCo has properly reflected the Accumulated Provision for Pensions and Benefits Adjustment as a component of rate base in the transmission formula rates for both the VEPCo Formula Rate 2024 Annual Update and 2022 True-Up. (See also Information Request No. ODEC/NCEMC/NOVEC-VEPCO 1.81.e, Company attachment "Attachment ODEC\_NCEMC\_NOVEC-VEPCO Set 1.81 (HT).xlsx," tab "e.")

### **14. DES Interest Expense Recorded to FERC Account 921.**

VEPCo has included \$7,155,868.57 in interest expense in FERC Account 921 and in the VEPCo Formula Rate, 2025 Annual Update and 2023 True-Up. (Information Request No. ODEC/NCEMC/ NOVEC-VEPCO 1.93 and the Company's attachment "Attachment ODEC\_NCEMC\_NOVEC-VEPCO Set 1.93 (AD).xlsx," tab "921.") Interest expenses which are not related to either Interest on Long-Term Debt (Account 427) or Interest on Debt to Assoc. Companies (Account 430) are to be recorded in FERC Account 431 – Other Interest Expense.

Joint Customers challenge the inclusion of the DES Interest Expense in the amount of \$7,155,868.57 in FERC Account 921 for both the VEPCo Formula Rate 2025 Annual Update and 2023 True-Up. (See also Outstanding Preliminary Challenge Issue #1 for a separate interest expense recorded to FERC Account 921 challenge.)