



March 31, 2017

**Application of Virginia Electric and Power Company
For determination of the fair rate of return on common equity to be used as the
general rate of return applicable to its rate adjustment clauses pursuant to
§ 56-585.1:1 C of the Code of Virginia
Case No. PUR-2017-00038**

To: Local Government Officials

Pursuant to 20 VAC 5-201-10 J, Virginia Electric and Power Company (the "Company") is providing you a copy of its Application in the above-referenced matter. Please take notice of its contents.

A copy of the complete Application in this matter may be obtained from the Company at no cost by written or oral request to Lisa S. Booth, Deputy General Counsel, Law Department, Dominion Resources Services, Inc., 120 Tredegar Street, RS-2, Richmond, Virginia 23219, (804) 819-2288.

A handwritten signature in blue ink, appearing to read "L. S. Booth", is written over a horizontal line.

Lisa S. Booth
Deputy General Counsel

Attachment

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

APPLICATION OF)
)
VIRGINIA ELECTRIC AND POWER COMPANY)
) Case No. PUR-2017-00038
For determination of the fair rate of return on)
common equity to be used as the general rate of return)
applicable to its rate adjustment clauses pursuant to)
§ 56-585.1:1 C of the Code of Virginia)

APPLICATION

Pursuant to § 56-585.1:1 C 2 of the Code of Virginia (“Va. Code”) and Rules 60 and 90 of the State Corporation Commission’s (“Commission”) Rules Governing Utility Rate Applications and Annual Informational Filings (“Rate Case Rules”),¹ Virginia Electric and Power Company (“Dominion Virginia Power” or the “Company”), by counsel, hereby submits its application (“Application”) for determination of the fair rate of return on common equity to be used as the general rate of return applicable to its rate adjustment clauses (“RACs”) under Va. Code § 56-585.1 A 5 (“Subsection A 5” or “A 5”) and A 6 (“Subsection A 6” or “A 6”). In support of its Application, Dominion Virginia Power respectfully shows the following:

GENERAL INFORMATION

1. Dominion Virginia Power is a public service corporation organized under the laws of the Commonwealth of Virginia furnishing electric service to the public within its certificated service territory. The Company also supplies electric service to nonjurisdictional customers in Virginia and to the public in portions of North Carolina. Dominion Virginia Power’s electric system, consisting of facilities for generation, transmission and distribution of electric energy, as well as associated facilities, is interconnected with the electric systems of

¹ 20 VAC 5-201-60 and -90.

neighboring utilities and is part of the interconnected network of electric systems serving the continental United States. By reason of its operation in Virginia and North Carolina and its interconnections with other electric utilities, the Company engages in interstate commerce.

2. Dominion Virginia Power's post office address is:

Virginia Electric and Power Company
120 Tredegar Street
Richmond, Virginia 23219

3. The addresses and telephone numbers of the attorneys for the Company are:

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REQUEST FOR ROE DETERMINATION

4. During its 2015 Session, the General Assembly of Virginia passed Senate Bill 1349 ("Senate Bill 1349"), which was signed into law by Governor McAuliffe on February 24, 2015,² and codified in part as Va. Code § 56-585.1:1. Among other things, Va. Code § 56-585.1:1 C requires the Commission to conduct biennial proceedings commencing in 2017 and concluding in 2019 to determine the general rate of return to be used for all A 5 and A 6 RACs. Specifically, Va. Code § 56-585.1:1 C 2 directs that:

² Virginia Acts of Assembly, 2015 Session, Chapter 6 (approved February 24, 2015; effective July 1, 2015).

Commencing in 2017 and concluding in 2019, the State Corporation Commission, after notice and opportunity for a hearing, shall conduct a proceeding every two years to determine the fair rate of return on common equity to be used by a Phase II Utility as the general rate of return applicable to rate adjustment clauses under subdivisions A 5 or A 6 of § 56-585.1. A Phase II utility's filing in such proceedings shall be made on or before March 31 of 2017 and 2019.³

5. In accordance with Va. Code § 56-585.1:1 C 2 and the Rate Case Rules, the Company is herein filing its Application for determination of the fair rate of return on common equity ("ROE") to be used as the general rate of return applicable to its RACs under Subsection A 5 and A 6 prospectively, effective with the date of the Commission's final order in this proceeding.

6. In support of its Application, the Company is presenting the testimony and exhibits of Company Witness Robert B. Hevert which demonstrate that the Company's current cost of equity falls at the midpoint of a range of 10.25% to 10.75%, and that an authorized ROE of 10.50% is reasonable and appropriate. The 10.50% proposed ROE falls within the lower end of the prescribed statutory peer group range of 10.48% to 13.48%, calculated pursuant to Va. Code § 56-585.1 A 2 a and b and presented in Filing Schedule 45.

7. Mr. Hevert's evidence demonstrates that an ROE in the range of 10.25% to 10.75% represents the range of equity investors' required ROE for investment in integrated electric utilities in today's capital markets. Within that range, Mr. Hevert concludes that an ROE of 10.50% represents the cost of equity for the Company, utilizing three widely accepted approaches: (1) the Constant Growth Discounted Cash Flow ("DCF") model; (2) the Capital Asset Pricing Model ("CAPM"); and (3) the Bond Yield Plus Risk Premium approach.

³ Va. Code § 56-585.1:1 C 2.

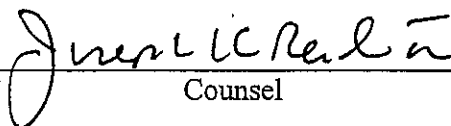
8. Mr. Hevert's conclusion also considers the Company's risk profile relative to the proxy group analytical results with respect to (1) the Company's comparatively high level of capital expenditures; (2) the risks associated with environmental regulation; and (3) the regulatory environment the Company operates in. Based on those factors, Mr. Hevert determines that an ROE of 10.50 percent reasonably represents the return required to invest in a company with a risk profile comparable to the Company.

WHEREFORE, Dominion Virginia Power requests that the Commission (1) approve 10.50% as the Company's authorized fair rate of return on common equity to be applied prospectively to its Subsection A 5 and A 6 RACs as of the date of the Commission's final order in this proceeding; and (2) grant the Company such further relief as may be necessary or appropriate.

Respectfully submitted by:

VIRGINIA ELECTRIC AND POWER COMPANY

By: _____


Counsel

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