

**BEFORE THE STATE CORPORATION COMMISSION
OF THE COMMONWEALTH OF VIRGINIA**

COMMONWEALTH OF VIRGINIA)	
)	
APPLICATION OF)	
)	
VIRGINIA ELECTRIC AND POWER COMPANY)	Case No. PUE-2008-00039
)	
To revise its fuel factor pursuant to)	
Va. Code Section 56-249.6)	

**COMMENTS OF
MARY LYNCH, AKRIDGE, AND F. CARLTON DIEHL, CAFRITZ COMPANY,
REGARDING THE DOMINION VIRGINIA POWER COMPANY
FUEL RATE INCREASE REQUEST**

Good Morning Commissioners, I am Brian M. Gordon, Virginia Vice President Government Affairs for the Apartment and Office Building Association of Metropolitan Washington, 1050 17th Street, N.W., Suite 300, Washington, DC 20036. I am presenting this statement today on behalf of Mary Lynch, Vice President of Property Management, Akridge, 601 Thirteenth Street, N.W., Suite 300 North, Washington, DC, 20005 and F. Carlton Diehl, Chief Operating Officer, Cafritz Company, 1825 K Street, N.W., Suite 1200, Washington, DC 20006.

Akridge is a full-service real estate company that owns and/or operates over 10 million square feet of commercial space in the DC Metropolitan Area, more than one million square feet of which is located in Virginia and is served by the Dominion Virginia Power Company (“DVP” or “Virginia Power”). The Cafritz Company owns and/or operates approximately 1.5 million square feet of commercial space and more than 3,700 residential apartment units in the DC Metropolitan Area, of which over 800 apartment units and more than 160,000 square feet of commercial space are served by Virginia Power.

Akridge and Cafritz Company hereby submit these comments regarding the Dominion Virginia Power Company's **\$1.3 billion dollar fuel rate increase** request that was filed on May 6, 2008.

Akridge and Cafritz Company believe that the recently filed DVP fuel rate increase request should send shivers down the spines of Virginia's consumers, elected officials and regulators. Virginia Power's **\$1.3 billion fuel rate increase** marks the largest rate increase ever sought by an electric utility in Virginia, and it comes at a time when the Commonwealth's economy is already stressed by mortgage foreclosures and declining government revenue streams. This is a **mammoth** rate increase that will have far reaching effects and potentially greater impacts on Virginia consumers than any of the tax legislation or transportation funding issues that the legislature has considered in recent years.

Although Virginia Power's press release portrays its request as an **18.3%** increase for a "typical residential customer," that statistic hides much more substantial impacts. Electric customers with higher levels of energy use will see even larger percentage increases in their bills. According to the DVP filing, residential heating customers could see winter bill increases approaching **30%**. For commercial and industrial customers, DVP's requested **18.3%** typical increase for residential consumers, translates into increases in total electric bills that will range between **20% and 44%**. For many large DVP commercial ratepayers in Virginia that are served under Rate Schedules GS-3 and GS-4 and typically have load factors of 50% or higher, the expected annual rate increases are in the **30% to 40%** range.

These increases will sharply raise the operating costs of our companies, as well many other Virginia businesses, potentially necessitating further price increases for their services and/or reductions in employee-related costs (e.g., reduced hiring, cuts in benefits, and possibly employee layoffs). These increases will also have substantial adverse impacts on organizations (including homeowners' associations, non-profit

organizations and churches) that are already faced with declining revenues and/or limited operating budgets.

Given the dramatic increases that have been experienced in energy prices in recent months, as well as the further increases that have been experienced since DVP prepared its fuel rate increase request, we believe that it is possible, if not likely, that most, if not all, of the requested increase can be cost-justified.¹ Akridge and Cafritz are not suggesting that DVP be denied recovery of **legitimate** fuel cost increases. **However**, in Virginia, and throughout most of the U.S., we are moving into a period of substantial **belt tightening** for nearly all sectors of our economy, and in that context **a more holistic review** of DVP's overall rates and charges (including its base rates, surcharges, and authorized return on equity (ROE)), is necessary to do everything possible to mitigate the impacts of what appear to be unavoidable fuel rate increases.

Although both Akridge and Cafritz Company are troubled by the magnitude of the rate increase that DVP has requested, we also have concerns regarding Virginia Power's proposals to, **once again, defer** a portion of its fuel costs for **future recovery**. We submit that such a deferral of cost recovery reflects neither sound economic policy nor substantial rate relief. From our perspective, such proposals for further deferral of such costs represent little more than additional forms of deficit spending for Virginia consumers, many of whom are already reeling from the credit crunch and mortgage foreclosures. Moreover, with reliance on such proposals, DVP's customers face the risk that further increases in energy costs (including those that have already occurred in the short time since DVP prepared its Fuel Factor filing) will lead to an even larger fuel cost increase and/or larger fuel cost deferrals next year. Further, Virginia Power has yet to be specific and clear as to whether it will at some future time seek recovery of interest and/or carrying charges of deferred fuel balances in base rates.

¹ We note, for example, that the DVP fuel rate filing is premised on NYMEX natural gas prices for the July 2008 through June 2009 period that range from a low of \$8.77 per MMBtu to a high of \$10.80 per MMBtu. (See Schedule 1 attached to the testimony of DVP witness Hupp.) As of the close of trading on June 10, 2008, natural gas prices for the same period ranged from \$10.860 to \$13.562 per MMBtu, i.e., roughly 25% further increases in prices for comparable months.

Our companies are **not** advocating any action that would jeopardize the financial sustainability of DVP's utility services. Yet, in the face of a weakening economy and large increases in electric prices, the State Corporation Commission ("SCC") should reconsider the need for, and appropriateness of, current recovery of costs for new generating and transmission facilities which may be deferrable in the face of price induced conservation. History and economic theory strongly suggest that when faced with large increases in electricity prices, customers will conserve, and electricity demand growth will slow, if not become negative. Such slowing of demand growth will postpone the need for new facilities to meet prior demand growth projections. It will also create opportunities to defer expenditures and reduce, or eliminate, surcharges for new facilities (e.g., transmission lines and generating plants) that are being constructed to meet such prior growth forecasts.

Furthermore, DVP's base rates, which have not been fully examined by the SCC in nearly 10 years, are in grave need of review. Our companies understand the constraints that have been placed on the SCC by recent legislation, but these are exceptional circumstances that need to be addressed on a **proactive**, rather than reactive, basis. We believe that reactive approaches to such issues will only tend to amplify the magnitude of economic problems within the Commonwealth. In this context, we urge the SCC to do everything within its power to (1) trim DVP's existing non-fuel rates and charges to minimum levels, consistent with the maintenance of DVP's ability to continue to provide reliable utility service and (2) seek, through the legislature, a full restoration of State Corporation Commission regulatory flexibility and authority to levels that existed prior to the State's failed experiment in deregulated retail markets for electric services. We submit that the limitations of the current "hybrid" regulation format are inappropriate and unduly constraining in the current economic environment.

We thank the Commission for this opportunity to testify here this morning.

Presented by **Brian M. Gordon** on behalf of **Mary Lynch, Akridge** and **F. Carlton Diehl, Cafritz Company**.