

VIRGINIA ELECTRIC AND POWER COMPANY  
FPC DOCKET NO. E-9147

- 1 Q PLEASE STATE YOUR NAME AND ADDRESS.  
2  
3 A My name is Robert M. Gross, Jr. My business address is 1000  
4 Crescent Avenue, N.E., Atlanta, Georgia 30309.  
5  
6 Q WHAT IS YOUR EDUCATIONAL BACKGROUND?  
7  
8 A I graduated from Georgia Institute of Technology in 1965, receiving  
9 the degree of Bachelor of Industrial Engineering. I also attended  
10 Georgia State University and in 1971 received the degree of Master  
11 of Business Administration, majoring in finance.  
12  
13 Q PLEASE STATE YOUR PROFESSIONAL EXPERIENCE.  
14  
15 A I have been employed by Southern Engineering Company of Georgia for  
16 approximately eight years. During this time I have been involved  
17 in the preparation of cost of service studies of investor-owned  
18 utilities, rural electric cooperatives and municipal systems and  
19 have participated in wholesale rate and retail electric consulting  
20 assignments in 23 states. I am a registered professional engineer  
21 in the State of Georgia.  
22  
23 Q HAVE YOU EVER TESTIFIED IN OTHER COMMISSION PROCEEDINGS?  
24  
25 A Yes, I have testified as a rate expert and cost of service witness  
26 before the State Commissions of Kentucky, Indiana, Michigan, Vermont  
27 and Virginia. I have also testified before the Federal Power Commis-  
28 sion in proceedings involving the Mississippi Power Company, FPC  
29 Docket No. E-7625; Central Vermont Public Service Corporation, FPC  
30 Docket No. E-7685; Appalachian Power Company, FPC Docket No. E-7775;  
31 Duke Power Company, FPC Docket No. E-7994; Gulf States Utilities  
32 Company, FPC Docket No. E-8121; and Gulf Power Company, FPC Docket  
33 E-8911 and Appalachian Power Company, FPC Docket No. E-9101.  
34  
35 Q BY WHOM IS SOUTHERN ENGINEERING COMPANY RETAINED IN THIS PROCEEDING?  
36  
37 A By the Cooperative Intervenors.  
38  
39 Q WHAT WAS YOUR ASSIGNMENT IN THIS PROCEEDING?  
40  
41 A My assignment was threefold: First I was to review VEPCO's direct  
42 testimony, exhibits and other available information concerning the  
43 cost to serve VEPCO's wholesale cooperative customers. Specifically  
44 I was to consider whether the methods employed by VEPCO for Period II  
45 to develop the overall Company cost of service and the allocation of  
46 cost of service are proper according to Commission precedents and  
47 sound ratemaking procedures. In addition, based on the adjustments  
48 to VEPCO's cost of service which are found necessary by cooperative  
49 witnesses, I was to prepare an overall cost of service study which  
50 accurately reflects the rates of return that are actually being earned

1 by VEPCO under its present wholesale electric tariff and that  
2 will actually be earned by VEPCO under its proposed wholesale  
3 electric tariff applicable to cooperative customers. Finally,  
4 using the cost of service as adjusted by the cooperative's wit-  
5 nesses and the overall cost of capital recommended by witness  
6 Wilson but subject to the adjustment factor calculated by O.  
7 Franklin Rogers, I was to compute the amounts of wholesale rate  
8 increase which are deemed just and reasonable and accordingly  
9 are recommended to be granted to VEPCO by this Commission.

10  
11 Secondly, I was to make a determination as to the justness and  
12 reasonableness of the Company's proposed 90% summer-based billing  
13 demand ratchet as contained in the proposed cooperative whole-  
14 sale rate "RC".

15  
16 The third and last aspect of my assignment was to compare VEPCO's  
17 proposed cooperative wholesale rate with the retail commercial  
18 and industrial rates of the Company applicable in Virginia and  
19 North Carolina. Furthermore I was to determine whether the  
20 cooperative customers can purchase their power requirements from  
21 VEPCO under its proposed cooperative wholesale rate schedule and  
22 sell such power to a new large power or industrial customer at  
23 a rate equivalent to VEPCO's current rate schedules applicable  
24 to such service. In fact I was to determine if the cooperative  
25 wholesale customers can, with the above conditions, offer an  
26 industrial rate competitive with VEPCO's retail rates applicable  
27 to large power or industrial service and maintain a sound finan-  
28 cial posture.

29  
30 Q WHAT DATA HAVE YOU REVIEWED IN PREPARING YOUR TESTIMONY AND RELATED  
31 EXHIBITS?

32  
33 A I have reviewed those portions of the Company's filing which  
34 relate to its cost of service studies and subsequent rate design  
35 including testimony and exhibits of VEPCO's witnesses and other  
36 information, such as VEPCO's 1973 and 1974 Form No. 1, which  
37 VEPCO supplied in response to the FPC Staff's and the Cooperative  
38 Intervenors' request for data.

39  
40 Q WITH REGARD TO THE FIRST PART OF YOUR ASSIGNMENT DEALING WITH COST  
41 OF SERVICE ISSUES, WILL YOU BRIEFLY SUMMARIZE THE CONCLUSIONS WHICH  
42 YOU AND THE OTHER WITNESSES FOR THE COOPERATIVE INTERVENORS HAVE  
43 REACHED AS A RESULT OF STUDYING VEPCO'S COST OF SERVING ITS COOP-  
44 ERATIVE WHOLESALE CUSTOMERS.

45  
46 A The cost of service studies presented by VEPCO in this proceeding  
47 significantly overstate the cost of serving VEPCO's cooperative  
48 wholesale customers. The following major errors have been made  
49 by VEPCO in its Period II cost of service study necessitating  
50 adjustments by the Cooperative Intervenors:

1. VEPCO has improperly inflated its expenses for Period II for the amortization of expenses related to the abandonment of the Marble Valley hydro electric project and expenses resulting from Hurricane Agnes.
2. VEPCO has not deducted from rate base the average balances during the test year for Account 282, liberalized depreciation, as is required by Commission precedent.
3. As testified to by Dr. Livingstone, VEPCO has inflated its rate base by using capitalization rates for Allowance For Funds Used During Construction (AFUDC) that would result in an excessive rate of return on the equity component of this allowance. In addition the Company's capitalization rate overstates the actual net cost of debt source funds available for construction purposes.
4. As testified to by Dr. Livingstone, VEPCO has improperly computed the deduction from income taxes for interest expense associated with both long term debt and notes payable for Period II.
5. As testified to by Dr. Livingstone, the Company's deferred tax treatment of Virginia gross receipts tax is incorrect. The proper accounting for ratemaking purposes of this tax item is a flow-through of the tax reduction to the customer.
6. As also testified to by Dr. Livingstone, the Company has improperly increased income taxes charged to the cost of service during Period II for nonexistent income taxes that would have been payable in the absence of the Company's actual tax deduction taken for interest paid for funds used during construction. Obviously the Company's method of excluding the beneficial tax impact of interest expense amounts with regard to the Period II cost of service is in error.
7. As testified to by Mr. Martin, the demand allocation factors utilizing the Company's annual peak one hour demand do not accurately reflect the actual demand imposed on VEPCO's facilities by each class of customer. The use of the average of the 12-monthly coincident peak demands does more accurately reflect use by each customer class of VEPCO's facilities.
8. As testified to by Mr. Martin, VEPCO has assigned a disproportionately large amount of transmission plant and associated expenses to its wholesale customers. Moreover some transmission facilities were specifically assigned by VEPCO to wholesale customers on a basis that differs from

1 that on which assignments were made to the retail class  
2 of customers even though there are transmission facilities  
3 used to serve retail customers that are functionally  
4 similar to transmission facilities used to serve whole-  
5 sale customers. I have adjusted for these inequities  
6 by using the rolled-in method of transmission plant allo-  
7 cation as suggested by Mr. Martin.  
8  
9 Q HAVE YOU PREPARED COST OF SERVICE STUDIES WHICH SHOW THE EFFECT  
10 OF THE COOPERATIVE INTERVENORS' ADJUSTMENT TO THE RATES OF RETURN  
11 THAT VEPCO EARNED UNDER THE PRESENT WHOLESALE TARIFF AND WOULD  
12 EARN UNDER THE PROPOSED COOPERATIVE WHOLESALE TARIFF?  
13  
14 A Yes.  
15  
16 Q I HAND YOU COOPERATIVE INTERVENORS' EXHIBIT\_\_\_\_(RMG-1) AND ASK YOU  
17 TO IDENTIFY IT.  
18  
19 A This Exhibit is entitled "Cost of Service Study, Virginia Electric and  
20 Power Company -- Year Ending 12/31/75 (Period II) As Adjusted".  
21  
22 Q WOULD YOU PLEASE EXPLAIN THIS EXHIBIT.  
23  
24 A Yes. This Exhibit shows the resulting allocated cost of service  
25 by class which is produced by adjusting the Company's Period II  
26 cost of service for the errors made by the Company. The rates of  
27 return that VEPCO earns under its present tariff for cooperative  
28 wholesale customers is shown to increase from 4.68 percent to 6.93.  
29 Likewise the rates of return that VEPCO would earn from its coopera-  
30 tive wholesale customers under its proposed wholesale cooperative  
31 rate schedule is shown to increase from 10.10 percent as shown in  
32 VEPCO's study to 13.63 percent as shown on Cooperative Intervenor's  
33 Exhibit\_\_\_\_(RMG-1), Page 2.  
34  
35 Q WHAT AMOUNTS OF COOPERATIVE RATE INCREASE DO THE COOPERATIVE INTER-  
36 VENORS RECOMMEND AS JUST AND REASONABLE?  
37  
38 A Using the proper rate of return (overall cost of capital) of 8.52%  
39 as testified to by intervenors' witness Wilson, but adjusted by  
40 the 71.8% factor recommended by witness O. F. Rogers, the amount  
41 of wholesale cooperative rate increase that would be paid to VEPCO  
42 by the cooperative is reduced from the requested \$12,575,000 to negative  
43 \$1,649,748. This amount as reduced is just and reasonable and  
44 provides VEPCO with a fair return on its cooperative wholesale  
45 portion of its business.  
46  
47 Q PLEASE EXPLAIN WHY YOU HAVE DEDUCTED THE AVERAGE BALANCES FOR ACCOUNT  
48 282 DURING THE TEST YEAR FROM THE RATE BASE.  
49  
50 A It has been standard Commission precedent to deduct from the rate base

1 the average balances for the test year held in Account 282,  
2 liberalized depreciation. On Statement "A", Period II, VEPCO  
3 shows that its outstanding deferred tax balance for liberal-  
4 ized depreciation on December 31, 1974 is \$3,248,000 and shows  
5 a figure of \$12,494,000 for December 31, 1975. The average  
6 of these beginning and end of year balances is \$7,871,000. I  
7 have adjusted this amount by a factor of 99.44% to recognize  
8 the very small amount of Account 282 relating to gas utility  
9 plant investment. The resulting balance of \$7,826,922 is  
10 assigned functionally based upon gross plant and then allocated  
11 by classification based upon the functional plant allocators  
12 shown on Schedule II, Sheets 1 and 2 of Cooperative Intervenor's  
13 Exhibit\_\_\_\_(RMG-1).

14  
15 Q WOULD YOU PLEASE EXPLAIN WHY YOU ELIMINATED FROM THE PERIOD II  
16 COST OF SERVICE THE AMORTIZED EXPENSES RELATED TO THE ABANDON-  
17 MENT OF THE MARBLE VALLEY HYDRO ELECTRIC PROJECT AND HURRICANE  
18 AGNES' DAMAGES.

19  
20 A Both of these adjustments are recognized by the Company in State-  
21 ment "N" Page 3 of 3, Period II, as pro forma adjustments to  
22 the actual projected expenses of the Company for the test year  
23 ending December 31, 1975. For ratemaking purposes these pro  
24 forma adjustments are not proper since the amortization period  
25 for both the Marble Valley hydro electric abandonment and the  
26 damages caused by Hurricane Agnes are soon to conclude. The  
27 amortization of the expenses resulting from the abandonment in  
28 February 1971 of the Marble Valley hydro electric project termi-  
29 nates in 1975. The amortization of the expenses associated with  
30 the damages caused by Hurricane Agnes in 1972 terminates in 1976.  
31 Since the term of the proposed wholesale rate will in any event  
32 run well into 1976 and probably 1977, particularly in view of  
33 the Company's excess reserve situation, I believe that normal  
34 ratemaking practices should preclude the additions of these  
35 amortized expenses in the test year.

36  
37 In addition, pro forma adjustments such as these are outside the  
38 scope of the Section 35.13(b)(iii) as defined in the Commission's  
39 Order No. 487 with regard to Statement "M". One of the purposes  
40 of that order was to eliminate the need for the use of pro forma  
41 adjustments to the actual expenses and investments of the test  
42 period. I see no significant reason for the Commission's Regu-  
43 lations to be manipulated in this case through the use of ad hoc  
44 adjustments made in Statement "N".

45  
46 Q MR. GROSS, THE SECOND ASPECT OF YOUR STATED ASSIGNMENT IN THIS  
47 CASE CONCERNS THE REASONABLENESS OF THE COMPANY'S PROPOSED 90%  
48 BILLING DEMAND RATCHET APPLICABLE TO THE COOPERATIVE CUSTOMERS.  
49 HAVE YOU MADE A STUDY TO DETERMINE IF THE 90% BILLING RATCHET IS  
50 JUSTIFIED?



1 A Yes, sir. My studies show that given the long-run necessity of  
2 including a summer-based billing demand ratchet in the Cooperative  
3 wholesale rate, the ratchet should not exceed an amount of 78%.  
4 Although I have some doubt as to the necessity of including any  
5 ratchet in the rate to cooperative customers, I have accepted the  
6 testimony of VEPCO's witnesses that the Company will be faced in  
7 the future with a "continuation and widening of the summer peak  
8 demand over other monthly demands" (witness Carpenter's direct  
9 testimony, Page 6). Based on such a trend, I would agree that a  
10 summer-based billing demand ratchet would represent a reasonably  
11 consistent approach toward establishing a long-run pricing pattern  
12 applicable to developing cost trends.

13  
14 I should point out however, that using the Staff and Cooperative  
15 Intervenor's demand allocation method based upon the average of  
16 the 12-monthly coincident peak demands produces a definite in-  
17 consistency between the manner in which costs are allocated (average  
18 of 12-monthly coincident demands) and the manner in which revenues  
19 are generated (skewed heavily for loads experienced during the  
20 summer peak season). Without VEPCO's strong inclination toward a  
21 widening summer peak differential, I would hesitate to recommend a  
22 summer based billing demand ratchet since such a device could sti-  
23 mulate winter load growth to the point where VEPCO may revert back  
24 to its earlier load patterns of experiencing its annual peak during  
25 the winter heating system.

26  
27 Q MR. GROSS, PLEASE DISCUSS YOUR STUDIES SUPPORTING YOUR OPINION THAT  
28 THE SUMMER BASED BILLING DEMAND RATCHET SHOULD NOT EXCEED A VALUE  
29 OF 78%.

30  
31 A First of all, let me emphasize that although there are many reasons  
32 to include a billing demand ratchet in a rate structure, usually  
33 the most prevalent reason and the one that VEPCO is utilizing in  
34 this case, is to match as close as possible the flow of demand  
35 charge related revenues with the causation of fixed costs on VEPCO's  
36 system. VEPCO's witness maintains that the principal causation of  
37 fixed cost on the Company's system is growth in VEPCO's annual peak  
38 summer demand. The ratchet is therefore designed to reflect back  
39 on the maximum demand of the wholesale customer established in the  
40 months of June through September when VEPCO is likely to establish  
41 its annual peak demand. The ratchet therefore serves as a pricing  
42 device to measure the relative contribution of each delivery point  
43 to VEPCO's annual peak demand and to insure that should the customer  
44 require capacity in the summer peak season, then the customer will  
45 be held accountable for such capacity on a billing basis for the  
46 remainder of the year.

47  
48 I have studied the likelihood of cooperative delivery point demands  
49 reaching a maximum summer period value at a time coincident with  
50 the Company's annual system peak demand. My studies show that the

1 incidence of demand coincidence during the system peak for the  
2 total wholesale cooperative class (all delivery points) is approxi-  
3 mately 78%. This percentage is measured by dividing the cooperative  
4 load coincident with the system annual peak by the sum of each  
5 cooperative delivery point non-coincident demands which occurred  
6 during the months of June through September (summer months governing  
7 ratchet application). The purpose of this analysis is to determine  
8 the degree of summer seasonal diversity that is experienced by the  
9 cooperative class with respect to the Company's annual peak demand.  
10 The ratchet should obviously reflect normal load diversity otherwise  
11 the class could be unduely penalized if the ratchet was set at a  
12 level not consistant with normal diversity.  
13  
14 Q I SHOW YOU A DOCUMENT MARKED COOPERATIVE INTERVENORS' EXHIBIT \_\_\_\_  
15 (RMG-2) AND ASK YOU TO IDENTIFY IT.  
16  
17 A This Exhibit is entitled "Determination of Maximum Measured Integrated  
18 Cooperative Delivery Point Demand For Billing Period June Through  
19 September 1974".  
20  
21 Q WAS THIS EXHIBIT PREPARED UNDER YOUR SUPERVISION?  
22  
23 A Yes.  
24  
25 Q PLEASE DISCUSS THIS EXHIBIT.  
26  
27 A I have summed for all delivery points the maximum 30 minute integrated  
28 demand established in the period of June through September, 1974. I show  
29 that the summation of such 30 minute demands is equal to 448,270 kW.  
30 When this figure is divided into the cooperative class demand coinci-  
31 dent with the Company's system annual peak demand as shown on Coopera-  
32 tive Intervenor's Exhibit \_\_\_\_ (EPM-1) page 5, of 350,787 kW, I calculated  
33 the incidence of peak demand coincidence of the Cooperative class for  
34 the summer period of June through September 1974 to be 78.25%.  
35  
36 I believe that the ratchet should recognize the historical peak  
37 season diversity experienced by the wholesale class with respect to  
38 the Company's annual peak demand. For this reason the billing demand  
39 ratchet should be limited to no more than a value of 78%.  
40  
41 Q IF THE BILLING DEMAND WAS REDUCED TO 78%, WHAT IMPACT WOULD IT HAVE  
42 ON THE DEMAND CHARGE IN THE WHOLESALE COOPERATIVE RATE?  
43  
44 A The demand charge would have to be increased by an appropriate amount  
45 to recover the revenue generated by application of the 90% ratchet  
46 in excess of application of a 78% ratchet. I have limited my testi-  
47 mony to only the proper level of the ratchet and I have not made a  
48 study, as yet, of the resulting demand charge variation caused by  
49 the lowering of the ratchet to 78%.  
50

1 Q MR. GROSS, YOUR LAST ASSIGNMENT IN THIS CASE CONCERNS THE RELATION-  
2 SHIP BETWEEN THE PROPOSED WHOLESALE RATE AND VEPCO'S RATES APPLI-  
3 CABLE TO INDUSTRIAL SERVICE IN VIRGINIA AND NORTH CAROLINA. WOULD  
4 YOU PLEASE DISCUSS THIS RELATIONSHIP AS IT NOW EXISTS IN VIRGINIA  
5 AND NORTH CAROLINA.  
6  
7 A Yes, sir. My studies show that cooperatives who are required to  
8 purchase supplemental power from VEPCO under the proposed whole-  
9 sale rate schedule will pay more for such power than retail com-  
10 mercial or industrial customers of VEPCO with comparable service  
11 characteristics.  
12  
13 Q HAVE YOU COMPARED THE PROPOSED WHOLESALE RATE WITH VEPCO'S RETAIL  
14 RATES APPLICABLE IN NORTH CAROLINA AND VIRGINIA?  
15  
16 A Yes I have.  
17  
18 Q I HAND YOU A DOCUMENT MARKED FOR IDENTIFICATION AS COOPERATIVE  
19 INTERVENORS' EXHIBIT \_\_\_\_ (RMG-3). WAS THIS DOCUMENT PREPARED UNDER  
20 YOUR SUPERVISION?  
21  
22 A Yes.  
23  
24 Q WILL YOU PLEASE EXPLAIN THIS EXHIBIT?  
25  
26 A Yes. Cooperative Intervenor's Exhibit \_\_\_\_ (RMG-3), consists of two  
27 pages which show billing comparisons between the proposed wholesale  
28 and present retail rates of VEPCO based on typical monthly load  
29 patterns of large industrial customers or wholesale points of delivery.  
30 The billing comparisons have been based on service at voltages of  
31 delivery less than 69 kV.  
32  
33 The comparison illustrates the difference in rate pricing as between  
34 wholesale and retail service. For instance, a large industrial  
35 customer with an average monthly demand of 20 megawatts and load  
36 factor of 68.5% (500 hours use of demand) would receive service for  
37 \$217,256.56 in Virginia and \$212,940.75 in North Carolina. On the  
38 other hand, a delivery point of a cooperative customer of VEPCO with  
39 a supplemental load of equal size would pay \$222,897.75. The pro-  
40 posed wholesale rate is therefore approximately 2.6% higher than the  
41 comparable retail rate in Virginia and 4.7% higher than the comparable  
42 retail rate in North Carolina.  
43  
44 Page 1 of Cooperative Intervenor's Exhibit \_\_\_\_ (RMG-3) focuses on the  
45 North Carolina retail rate while Page 2 of this Exhibit compares the  
46 retail rate applicable in Virginia. The comparison shows that VEPCO's  
47 proposed wholesale rate applicable to cooperatives is uniformly higher  
48 for industrial size loads between 5 and 20 megawatts than the appli-  
49 cable retail rates.  
50



1 Q MR. GROSS, IN YOUR OPINION, GIVEN THE LEVEL OF THE PROPOSED  
2 WHOLESALE RATE, CAN COOPERATIVES EFFECTIVELY COMPETE WITH VEPCO  
3 ON A COMPARATIVE RATE BASIS FOR INDUSTRIAL LOADS IN THE 5 TO  
4 20 MEGAWATT RANGE?  
5

6 A No, sir. The comparisons show that for a cooperative to effec-  
7 tively compete for such industrial loads given the proposed  
8 wholesale rate, it would be forced to resell such power to an  
9 industrial load at a rate that would produce less revenue than  
10 the cost of such power to the cooperative. The relationship  
11 therefore between VEPCO's applicable retail rates and the rate  
12 under which it proposes to sell power to the cooperative customers  
13 makes it economically unrealistic for the cooperative to offer  
14 an industrial rate competitive with the industrial rate of VEPCO  
15 in either North Carolina or Virginia.  
16

17 Q MR. GROSS, ARE THERE OTHER FACTORS THAT MAY HAVE A BEARING ON THE  
18 COOPERATIVE'S ABILITY TO COMPETE WITH VEPCO FOR INDUSTRIAL LOADS  
19 IN THE 5 TO 20 MEGAWATT RANGE?  
20

21 A Yes, sir. Theoretically, factors such as load diversity, alternative  
22 sources of power, and service at transmission voltages could in-  
23 fluence the retail rates of the cooperative. From a practical  
24 standpoint, however, with the type of loads under analysis, such  
25 factors have a negligible effect on the cooperative's ability to  
26 offer a competitive rate.  
27

28 Based upon expected 1975 peak delivery point loads, there are presently  
29 only 14 delivery points out of the 181 cooperative delivery points that  
30 exceed a peak load of 5 megawatts. Only 6 of these delivery points  
31 exceed 10 megawatts presently. For most cooperative customers of  
32 VEPCO, adding a large industrial load to their system would automati-  
33 cally require adding a new delivery point from VEPCO because the capa-  
34 city at existing points of delivery is not adequate to serve large  
35 load increases. Unless the cooperative engaged in considerable  
36 transmission investment, a new industrial load in the 5 to 20 megawatt  
37 range would be served out of a new delivery point obtained from VEPCO.  
38 Since metering and billing is by delivery point, there would be little,  
39 if any, diversity gained by the cooperative in serving such a load.  
40 In other words, the quantities of power and energy governing the whole-  
41 sale transaction would be virtually the same quantities governing the  
42 retail transaction. In my opinion, diversity would not be of  
43 sufficient significance to enter the pricing considerations of the  
44 cooperative.  
45

46 With regard to alternative power sources, the only additional  
47 power source now available in Virginia and North Carolina, for  
48 VEPCO-served cooperatives is Southeastern Power Administration  
49 hydro power and energy. The availability of SEPA power and energy  
50 is fixed and will not expand in the future unless additional hydro

1 resources are developed by the Corps of Engineers. The present  
2 allotments of SEPA power and energy, for the cooperatives who  
3 have allotments, amount to less than 10% of their total load.  
4 The relative low-cost benefits of such power have been fully  
5 absorbed by each cooperative over the years. It would be imprac-  
6 tical from a ratemaking standpoint to include the relative low-  
7 cost benefits of hydro-electric power in a rate to a new industrial  
8 load since the source of all of the power to serve that load would  
9 be from VEPCO's resources under its applicable wholesale rate.

10  
11 The billing amounts shown on Cooperative Intervenors' Exhibit \_\_\_\_\_  
12 (RMG-3) were calculated based upon delivery voltages of less than  
13 69 kV. The proposed wholesale rate provides a high voltage dis-  
14 count for delivery voltages at 69 kV and higher. In some cir-  
15 cumstances the cooperative may have the opportunity of taking  
16 service from VEPCO at voltages which qualify for the high voltage  
17 discount. Under such condition it would then be incumbent on  
18 the cooperative to make the necessary investment in transmission  
19 and distribution facilities in order to provide service to the  
20 ultimate customer. In most cases the cost to the cooperative of  
21 making the necessary investment in transmission and distribution  
22 facilities in order to provide service to an industrial load  
23 would fully offset the advantage provided in taking service  
24 from VEPCO at a rate reflecting a transmission discount.

25  
26 In summary then, it is my opinion that neither diversity, nor  
27 alternative sources of lower cost power, nor the availability  
28 of high voltage discounts will have anything other than a neg-  
29 ligible impact on the ability of a VEPCO served cooperative  
30 customer to be competitive with VEPCO's industrial retail rates  
31 under present conditions.

32  
33 Q DOES THAT CONCLUDE YOUR TESTIMONY?

34  
35 A Yes, it does.  
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