

Part 2

240610091

Davis

WITNESS DIRECT TESTIMONY SUMMARY

Witness: Richard M. Davis, Jr.
Title: General Manager, Corporate Finance; Assistant Treasurer

Company Witness Richard M. Davis, Jr., sponsors the Company's cost of capital information utilized to develop the revenue requirements sponsored by Company Witness Jared R. Robertson. He sponsors Filing Schedules 3 through 5 and 8, which provide information regarding the Company's cost of capital for the year-end 2023 capital structure. Additionally, he sponsors Filing Schedule 8 for the year-end 2021 and 2022 capital structures.

After consultation with Commission Staff, and in the interest of judicial economy, the Company proposes that its year-end 2023 capital structure will be reviewed and approved in this proceeding. Any issues related to the Company's year-end 2023 capital structure will be litigated in this docket and the Commission's final determination of the appropriate capital structure weightings and cost of debt will then be applied in the Company's other rate proceedings, where applicable. The Company will request waivers from submitting Filing Schedules 3 through 5 in all other applicable rate proceedings.

Company Witness Davis explains the components of the Company's 2023 actual end-of-period capital and testifies that the 2023 capital structure is in line with the Company's prior projections. He explains how the Company develops financing plans with the goal of maintaining the Company's current credit ratings as a starting point in order to enable sufficiently attractive access to the capital markets.

Finally, Mr. Davis discusses recent legislation that addressed the equity component of the Company's capital structure and describes the steps the Company is taking to maintain the 52.1% ratemaking equity ratio pursuant to that legislation.

**DIRECT TESTIMONY
OF
RICHARD M. DAVIS, JR.
ON BEHALF OF
VIRGINIA ELECTRIC AND POWER COMPANY
BEFORE THE
STATE CORPORATION COMMISSION OF VIRGINIA
CASE NO. PUR-2024-00097**

1 **Q. Please state your name, position with Virginia Electric and Power Company**
2 **(“Dominion Energy Virginia” or the “Company”), and business address.**

3 **A.** My name is Richard M. Davis, Jr. I am the General Manager, Corporate Finance and
4 Assistant Treasurer for Virginia Electric and Power Company. My business address is
5 120 Tredegar Street, Richmond, Virginia 23219. A statement of my background and
6 qualifications is attached as Appendix A.

7 **Q. Please describe your areas of responsibility with the Company.**

8 **A.** I am responsible for the execution, documentation, monitoring, compliance, and reporting
9 of all financing transactions carried out in the public and private capital markets for
10 Dominion Energy and its subsidiaries (including the Company).

11 **Q. What is the purpose of your testimony in this proceeding?**

12 **A.** The purpose of my testimony is to support the Company’s request to consolidate Riders
13 B, BW, GV, US-2, US-3, and US-4 pursuant to § 56-585.1 A 7 of the Code of Virginia
14 (“Va. Code”), resulting in: (1) the recovery of costs associated with the Company’s
15 biomass units (Altavista, Hopewell, and Southampton), Brunswick County Power
16 Station, Greensville County Power Station, US-2 Solar Facilities (Scott Solar,
17 Whitehouse Solar, and Woodland Solar), US-3 Solar Facilities (Colonial Trail West Solar
18 and Spring Grove 1 Solar), US-4 Solar Facility (Sadler Solar), and the proposed liquified

1 natural gas storage facility and related transmission interconnection facilities (“LNG
2 Storage Facility”)¹ through a new rate adjustment clause, designated Rider GEN under
3 Va. Code § 56-585.1 A 6 (collectively, the “Rider GEN Facilities”); and (2) the
4 withdrawal of the Rider B, BW, GV, US-2, US-3, and US-4 tariffs effective April 1,
5 2025. Specifically, I sponsor the Company’s cost of capital information and capital
6 structure utilized to develop the revenue requirements sponsored by Company Witness
7 Jared R. Robertson.

8 **Q. Are you sponsoring an exhibit in this proceeding?**

9 A. Yes. I sponsor Filing Schedules 3 through 5 and Filing Schedule 8, which
10 provide information regarding the Company's cost of capital for the year-end 2023 capital
11 structure. Additionally, I sponsor Filing Schedule 8 for the year-end 2021 and 2022
12 capital structures.

13 **Q. Please explain the Company’s proposal in this case regarding Filing Schedules 3
14 through 5 and 8.**

15 A. Pursuant to 20 VAC 5-204-60, the Company is required to submit Filing Schedules 3
16 through 5 and 8 in each rate adjustment clause proceeding supporting each overall cost of
17 capital used in the application. It is my understanding that the Company has requested in
18 the Application, after consultation with Commission Staff, that for judicial economy, the
19 year-end 2023 capital structure will be reviewed and approved in this proceeding. Any
20 issues related to the Company’s year-end 2023 capital structure will be litigated in this

¹ Simultaneously with the filing of its Application to recover the costs of the Rider GEN Facilities through Rider GEN, the Company filed a petition to amend the certificates of public convenience and necessity for Brunswick County Power Station and Greenville County Power Station to construct an LNG storage facility at the Greenville County Power Station. The LNG Storage Facility will be used as a backup fuel source for the two power stations. See Case No. PUR-2024-00096 for the Company’s justification and need for the LNG Storage Facility.

1 docket and the Commission's final determination of the appropriate capital structure
2 weightings and cost of debt will then be applied in the Company's other rate proceedings,
3 where applicable. The Company will request waivers from submitting Filing Schedules 3
4 through 5 in all other applicable rate proceedings. Filing Schedule 8 will continue to be
5 submitted in each rate proceeding in which the 2023 year-end overall cost of capital is
6 used in the filing. For any prior year capital structures that have already been reviewed
7 and approved by the Commission, the Company will only submit Filing Schedule 8 and
8 will request a waiver from submitting Filing Schedules 3 through 5.

9 **Q. What are the components of the Company's 2023 actual end-of-period capital**
10 **structure?**

11 A. On a ratemaking basis, the Company's actual December 31, 2023 capital structure is
12 composed of 5.9% short-term debt, 41.4% long-term debt, 0% preferred stock, 52.0%
13 common equity, and 0.7% investment tax credits.

14 **Q. Is the 2023 capital structure in line with the Company's prior projections?**

15 A. Yes. The Company submits its proposed financing plans to support its capital investment
16 program to the Commission on an annual basis. While the targeted credit metric ranges
17 and projected capitalization percentages presented in the Annual Financing Plans are
18 expressed on a Generally Accepted Accounting Principles ("GAAP") basis and not on a
19 ratemaking basis, those targets and projections are in line with both the GAAP and
20 ratemaking actual 2023 capitalization ratio.

1 **Q. How are these financing plans developed?**

2 A. We develop these plans with the goal of maintaining the Company's current credit ratings
3 as our starting point in order to enable sufficiently attractive access to the capital markets
4 under various economic environments and on reasonable terms and conditions. This
5 objective leads us to focus primarily on the Company's cash-related metrics including the
6 ratio of funds from operations ("FFO") to interest expense, and the ratio of FFO to total
7 debt, which are critical to the Ratings Agencies in assessing the Company's ability to
8 meet its obligations for timely repayment of principal and interest. While the resultant
9 debt to total capitalization ratio is important, it is not the primary focus of our decisions
10 regarding financing needs for the Company, and the amount of equity needed over time is
11 driven by the impact on the FFO measures, rather than by setting out to achieve a pre-
12 specified debt to total capital ratio.

13 Our overall approach to financial management and capital raising activities is intended to
14 ensure sufficient access to the capital markets, adequate liquidity, and reasonable capital
15 costs, consistent with the Company's capital requirements and its public service
16 obligation. The Company is continuing to manage its capitalization with the intent to
17 fund its capital needs, which are substantial, at the lowest reasonable overall long-term
18 cost of capital for our customers.

19 **Q. Was there recent legislation addressing the equity component of the Company's**
20 **capital structure?**

21 A. Yes. Pursuant to legislation enacted as Chapter 775 of the 2023 Acts of Assembly (the
22 "Act") the Company is required to take reasonable efforts to maintain an equity
23 component of total capitalization at 52.1% through the end of 2024.

1 **Q. Please describe the steps the Company is taking to maintain the 52.1% ratemaking**
2 **equity ratio pursuant to the Act.**

3 A. First, the Company monitors actual year-to-date and projects future year-end capital
4 structure to ensure operational and financing decisions are in line with the legislative
5 equity ratio. The major effort in 2023 to achieve the legislatively mandated equity ratio
6 was the sale of equity to the Company's parent, Dominion Energy, Inc. ("DEI"),
7 authorized by the Commission in Case No. PUR-2023-00114. On October 18, 2023, the
8 Company issued \$2.036 billion of common stock to DEI. Subsequently, on November 2,
9 2023, the Company issued an additional \$539 million of common stock to DEI. Finally,
10 on November 29, 2023, the Company issued an additional \$675 million of common stock
11 to DEI. The Company used the proceeds from the sale of shares to reduce the aggregate
12 amount outstanding under its intercompany credit facility with DEI, which is reported as
13 short-term debt in the regulatory capital structure. These transactions had the impact of
14 increasing the common equity ratio and reducing the short-term debt ratio, all else equal.
15 The Company utilized the full Commission authorization of \$3.25 billion of common
16 stock issuance in its efforts to achieve the legislatively mandated 52.1% equity ratio by
17 December 31, 2023. Further, the Company avoided any dividend payments to DEI
18 during 2023.

19 **Q. Mr. Davis, do you support the use of the Company's 2023 actual end-of-period**
20 **capital structure for purposes of this proceeding and all relevant purposes?**

21 A. Yes, I do. The Company's actual end-of-period capital structure for 2023 is reasonable
22 and should be applied for all relevant purposes. I believe that these capitalization
23 components were accurately and appropriately calculated in accordance with this

1 Commission's rules and precedents, are the result of the Company's reasonable efforts to
2 maintain an equity ratio of 52.1% through December 2024, and reflect the prudently
3 undertaken financing activities designed to support the Company's significant capital
4 investment program for the benefit of our customers.

5 **Q. For the prior year capital structures, please identify the cases in which they were**
6 **approved.**

7 A. The 2021 and 2022 capital structures were reviewed and approved in the Company's
8 2023 biennial review proceeding, Case No.PUR-2023-00101. As previously discussed,
9 the Company is only presenting Filing Schedule 8 for these years and requesting a waiver
10 for Filing Schedule 3 through 5. The overall cost of capital for 2021 and 2022 presented
11 in Filing Schedule 8 is consistent with the overall cost of capital approved in the 2023
12 biennial review.

13 **Q. Does this conclude your pre-filed direct testimony?**

14 A. Yes, it does.

APPENDIX A

**BACKGROUND AND QUALIFICATIONS
OF
RICHARD M. DAVIS, JR.**

Richard M. Davis, Jr. is the General Manager of Corporate Finance and Assistant Treasurer. He joined Dominion in April 2005 and was named to his current post in October 2023. Prior to his current role, Mr. Davis was most recently employed with BHE GT&S for three years serving as the Director-Treasury and Assistant Treasurer. In that role, he directed all aspects of the Treasury Department, including cash management, corporate finance and accounts payable for over 20 legal entities. Prior to returning to Dominion from BHE GT&S, Mr. Davis had nearly 16 years of experience in various accounting and finance roles, including as the Director-Strategic Risk Management and Director – Corporate Finance. In the Strategic Risk Management role, he was responsible for the oversight and facilitation of annual business segment risk assessments. These assessments provided executive management and the board the ability to identify, quantify and respond to the key risks of the business. The role also included significant involvement in the Investment Review Committee (IRC) process. In his Director-Corporate Finance and Assistant Treasurer role he had similar responsibilities to his current position. Prior to joining Dominion, Mr. Davis primarily worked in public accounting as an auditor serving various industries, including power and utilities. Mr. Davis serves on the board of directors for the Faison Center – a Richmond-based non-profit educational and treatment center serving individuals and families impacted by autism spectrum disorder and other developmental disabilities. Mr. Davis earned a bachelor's and master's degree in accounting from Wake Forest University and is a Certified Public Accountant in the Commonwealth of Virginia.