

**CONSUMER ADVOCATE DIVISION'S ANNUAL REPORT FOR 2013
AND COMPARATIVE RESIDENTIAL RATE STUDY**

STATE UTILITY RATES DECREASED 5.3% IN 2012

Utility rates in West Virginia decreased by an average of 5.3% during 2012. This statewide average includes several cities where utility rates declined and a small number of cities where utility rates increased dramatically.

2012 Rate Cases

In 2012, West Virginia utilities filed cases seeking net increases in rates of \$1.1 million. The Public Service Commission (PSC) rendered decisions in these cases which decreased rates by \$97.1 million, as shown on Appendix I of this report. The Consumer Advocate Division (CAD) participated in 35 cases before the PSC and the Federal Energy Regulatory Commission, and played a large part in holding down rate increases for West Virginians. The bottom line of the work done by the CAD is seen in the rates charged to West Virginia residential consumers of electricity, gas, water, and telephone service. In order to determine the impact of rate case decisions during the year, the CAD prepares an annual study of utility rates.¹ The study is attached to this report as Appendix II.

¹Utility rates used in the study are based on average monthly usage by a residential customer of 13 Mcf's of gas (Mcf = 1,000 cubic feet), 1000 kwh of electricity (kwh = kilowatt hour), 4,500 gallons of water and a single line telephone with flat-rate service. Telephone rates also include the applicable federal subscriber line charge, federal universal service surcharge, federal universal service credit, and deaf relay service surcharge.

The CAD's study examines current rates for 17 cities within West Virginia. In addition, rates for some of the largest cities in West Virginia were compared to rates in surrounding states.

Year to Year Rate Comparison

Rates for the largest electric, gas, telephone and water companies in West Virginia at the beginning of 2012 and the beginning of 2013 are shown on Tables 1 and 1A of the study. **As shown on Table 2A of the study, an average utility ratepayer in West Virginia paid \$292.81 for electricity, gas, water, and telephone service in January 2012. Currently, that same customer is paying \$277.22, a 5.3% decrease from last year.**

Tables 4 to 8 show changes in the costs of utility service since 2008 for selected cities within West Virginia, along with the statewide average of all 17 cities studied. These tables demonstrate both the dramatic increase in electricity and water bills and the equally dramatic decline in natural gas bills since 2008; (telephone rates have remained stable). Electricity bills have increased by 38.4% and water bills have increased by 35.5%. Natural gas bills, on the other hand, have decreased by 29.7%

City to City Rate Comparison

Of the in-state areas studied, Table 2 of the study shows that residents of Logan enjoy the lowest utility costs, while Bluefield customers have the highest bills. Bluefield customers pay a total of \$295.66 for the same amount of electricity, gas, water and telephone service that would cost a customer in Logan \$262.67, a 12.6% variance. The cost of natural gas and water were the main factors responsible for the disparity in rates within West Virginia. Customers using exactly the same amount of water – 4500 gallons - paid as little as \$17.42 in Morgantown, or as much as \$50.50 if they were served by West Virginia-American Water Company - a variance of more than \$33.

Customers using exactly the same amount of natural gas – 13 Mcf – paid as little as \$110.80 if they were served by Equitable Gas, or as much as \$125.50 if they were served by Hope Gas, a variance of almost \$15. Table 2A shows that all of the 17 cities in the survey experienced decreases in utility bills in 2012, primarily due to decreases in natural gas rates.

Comparison with Rates in Surrounding States

The overall costs of utility service in the largest West Virginia cities were lower on average than the costs in cities in surrounding states in January 2013, as shown on Table 3. Residential customers in West Virginia's seven largest cities studied have lower rates than customers in Pittsburgh, Pennsylvania; Richmond, Virginia; and Baltimore, Maryland. However, all West Virginia customers have higher rates than customers of Lexington, Kentucky, and four West Virginia cities have higher rates than Columbus, Ohio. Utility bills for electric, gas, telephone and water service for the out of state cities studied range from \$234.32 in Lexington, Kentucky to \$350.85 in Pittsburgh, Pennsylvania. The average monthly bill for out of state customers is \$293.89. **The statewide monthly average for all West Virginia cities studied is \$277.22**

As can be seen on Table 3, West Virginia average rates for natural gas, telephone and water service were higher than in surrounding states. However, the higher cost of these services was more than offset by West Virginia's lower electricity rates.

Review of 2012 Regulatory Actions

During the year 2012, there were a number of major gas and electricity cases involving the largest providers of these services in the state. Changes in the commodity price of gas continued to cause lower rates for most gas utilities in the state. And after several years of increases, electric rates remained stable or decreased.

Gas

In 2012, most natural gas customers continued to benefit from declining rates due to the declining cost of natural gas that utilities purchase to serve their customers. From 2000 through 2008 natural gas rates more than doubled, reaching a peak in January 2009 when an average natural gas bill was almost \$200.00. Currently the statewide average cost of a 13 Mcf natural gas bill is 41% lower than in 2009, at \$116.24.

The initial decline in natural gas rates was primarily caused by the impact of the global economic recession on wellhead gas prices. Wellhead natural gas prices have remained at relatively low levels due to slow economic growth and the significant increase in production from drilling in shale formations, most notably the Marcellus Shale.

In November 2011, Mountaineer Gas filed a general rate case requesting an increase in revenues of \$12.2 million. Unfortunately, the Company requested that the Commission allow it to recover more than 75% of this revenue increase from residential customers. Mountaineer's filing exempted all large commercial and industrial customers from bearing any increase in rates. The Commission granted Mountaineer a \$6.3 million revenue increase, and denied Mountaineer's request to exempt certain customers from any rate increase.

Despite the current rosy outlook for natural gas prices, there is no guarantee that prices will remain at this level in the future. The U.S. experienced relatively low natural gas prices throughout the 1990's, only to see prices soar from 2000 through 2008. The Consumer Advocate Division recommends that customers continue to improve the energy efficiency of their homes as a buffer against future price increases.

Electricity

For the first time in the last five years, West Virginia's two largest electric utilities; Appalachian Power Company² and Monongahela Power Company³ had their rates decline or remain unchanged. In August 2012, the Public Service Commission issued an order decreasing the fuel component of Appalachian Power's rates and increasing the component for the recovery of the cost of a new power plant. The net impact was no change in consumer rates. In December 2012, the PSC ordered Monongahela Power to reduce its rates by \$65.7 million.

The past year saw a number of dramatic shifts in the electric utility industry in West Virginia. The combination of increased competition from natural gas-generated electricity and stricter environmental rules caused both major utilities to announce closings of several older, less efficient coal-fired power plants in West Virginia. In late 2012, both Appalachian Power and Monongahela Power initiated proceedings that will have a significant impact on electricity rates in 2013 and beyond. Both utilities are requesting approval to purchase certain power plants from their unregulated affiliate companies. Each transaction will involve approximately \$1 billion in assets. The PSC's review of these proposed transactions will be a very complicated undertaking, requiring a sophisticated analysis of future customer energy needs as well as consideration of the variety of options available to meet those needs. The PSC will need to determine whether the proposed transactions will result in the most cost-effective means of meeting utility customers' needs over the next 20-plus years.

Unfortunately, most indicators point to continued pressure on electricity rates in the future. The increased cost of electricity is placing a significant burden on household budgets in West

² The rates for Appalachian Power are also applied to customers served by Wheeling Power Company

³ The rates for Monongahela Power are also applied to customers served by The Potomac Edison Company.

Virginia. A listing of community organizations in each county that can offer help with winter heating bills is found on the Consumer Advocate Division's website, www.cad.state.wv.us, under the heading "Consumers' Corner."

Telecom

In May 2010, the Public Service Commission granted approval for Frontier Communications Corporation to acquire Verizon's regulated operations in West Virginia. The acquisition closed on June 30, 2010.

Since the closing of the acquisition, Frontier has made significant progress in improving service quality in West Virginia. Unfortunately, Verizon had neglected the maintenance of its facilities and had trimmed employment levels for a number of years prior to Frontier's takeover. Frontier has improved its response to customer outages and now is able to repair customer service outages (other than for extraordinary storms) within 48 hours 85% to 90% of the time. Under Verizon, customers routinely had to wait four or five days for repair service. Although Frontier's service quality still lags behind other states - where repairs routinely occur within 24 hours - the improvements in service quality are nonetheless a significant benefit to consumers.

Frontier has also significantly expanded the availability of high speed internet service in West Virginia. Frontier's activities have increased the availability of high speed internet service to approximately 84% of households in the former Verizon service area. At the end of 2008, Verizon had only made high speed internet service available to 60% of its customers.

Water

In mid-December 2012, West Virginia's largest water utility, West Virginia American Water Company (WVAWC), filed for a \$24.1 million revenue increase, which would increase an average

customer's monthly bill by approximately 21%. Since WVAWC's rates are already the highest in West Virginia, the Companies' increase request will make water service even less affordable for many of the 171,000 customers it serves. WVAWC has recently instituted a new rate for certain low income customers which will allow those customers to get a 20% discount on their bills. Customers receiving public assistance should inquire with the West Virginia Department of Health and Human Resources to determine whether or not they are eligible for the discount.

Conclusion

The next year ahead will continue to bring challenges for the State's electric utilities. The high cost of water service provided by WVAWC is an ongoing concern. The Consumer Advocate Division will continue to vigorously employ regulatory tools to attempt to achieve better service and better prices for customers in West Virginia.

The Consumer Advocate Division's residential rate study is attached as Appendix II. The report is also available on the CAD's web site at <http://www.cad.state.wv.us>.

FOR FURTHER INFORMATION CALL BYRON HARRIS AT 304-558-0526.