



CONSUMER ADVOCATE DIVISION
STATE OF WEST VIRGINIA
PUBLIC SERVICE COMMISSION
700 Union Building
723 Kanawha Boulevard, East
Charleston, West Virginia 25301
(304) 558-0526

CONSUMER ADVOCATE DIVISION'S ANNUAL REPORT FOR 2015

COMPARATIVE RESIDENTIAL RATE STUDY

STATE UTILITY RATES INCREASED 3.4 % IN 2014

West Virginia utility rates increased by an average of 3.4 % in 2014. This statewide average includes cities where utility rates declined while the utility rates of some cities increased. In general, natural gas rates increased by an average of 5.7% and electric rates decreased slightly.

2014 Rate Cases

In 2014, West Virginia utilities filed cases requesting rate increases of approximately \$444.35 million and the Public Service Commission (PSC) rendered decisions in those cases approving rate increases of approximately \$233.33 million, as shown in Appendix I, Table 1 of this report. The Consumer Advocate Division participated in 21 cases before the PSC and the Federal Energy Regulatory Commission, and played a large role in minimizing rate increases for West Virginians. This effort is reflected 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 Consumer Advocate Division prepares an annual study of

utility rates.¹ The study is attached to this report as Appendix I, Tables 1 - 10. The Consumer Advocate Division's study examines current rates for 17 cities within West Virginia and compares them to the rates in the cities of surrounding states.

Year to Year Rate Comparison

Rates for the largest electric, gas, telephone, and water companies in West Virginia at the beginning of 2014 and the beginning of 2015 are shown in Appendix I, Table 2. As shown on Appendix I, Table 3, in January 2015 a utility customer in West Virginia paid an average of \$290.22, for electricity, gas, water, and telephone service, an increase of 3.4% over the 2013 average of \$280.62.²

Appendix I, Table 4 shows the statewide average for utility bills for the five year period ending January 2015. The 2014 average total bill was \$298, a 4% increase over the 2011 amount of \$287. During the five year period, water bills showed the largest increase of 15%, followed by an increase in telephone and electricity bills of 7% each. Natural gas bills decreased by 2%.

Appendix I, Table 5 shows the changes over the last five years in utility costs in four West Virginia cities.

City to City Rate Comparison

Of the seventeen cities included in Appendix I, Table 3, Morgantown residents enjoy the lowest utility costs, while Bluefield customers have the highest utility costs. Bluefield customers pay a total of \$325.22 for the same amount of electricity, gas, water, and telephone service that a customer in Morgantown \$254.30 would pay, a difference of \$70.92. The cost of natural gas

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.

² Consumer Advocate Division Annual Report for 2014, Table 3.

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 \$54.07 if they were served by West Virginia-American Water Company - a variance of \$36.65. Customers using exactly the same amount of natural gas – 13 MCF – paid as little as \$114.86 if they were served by Hope Gas, or as much as \$147.74 if they were served by Bluefield Gas, a variance of \$32.88. Appendix I, Table 3 shows the increases and decreases in utility rates of all 17 cities in the survey and ranks the cities from the least expensive to the most expensive.

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, as shown on Appendix I, Table 3 and Table 10. Utility bills for electric, gas, telephone, and water service for the out of state cities studied range from \$312.62 in Lexington, Kentucky to \$364.75 in Baltimore, Maryland. The average monthly bill for out of state customers is \$333.99. The statewide monthly average for all West Virginia cities studied is \$290.22.

Appendix I, Tables 6 – 10 compare the average West Virginia monthly utility bills for each utility with the average of selected cities of other states. West Virginia's average rates for electricity, natural gas, telephone, and water service are shown separately on Tables 6 – 9 and were mostly lower than in the surrounding the states. Appendix I, Table 10 shows the total average utilities cost for West Virginia as compared with the surrounding states.

Review of 2014 Regulatory Actions

Appendix I, Table 1 summarizes the major 2014 West Virginia rate decisions. During 2014, there were a number of significant electricity cases in West Virginia, although the overall

rates decreased slightly. The commodity price of natural gas increased rates for most gas utilities in the state. Municipal water rates increased and telephone rates increased primarily as a result of losing a Federal Universal Service Credit of \$2.00 per customer.

Gas

In 2014, most natural gas customers continued to benefit from the lower natural gas costs compared to 2009. 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 for 13 MCF of natural gas is \$129.00, 35% lower than in 2009.

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.

Despite the promising 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. In fact, in 2014 gas prices increased as a result of demand for natural gas during the polar vortex in January 2014. Gas prices remained high after January 2014 as inventories were replenished. In West Virginia, this increase in natural gas costs was reflected in rates that became effective in December 2014. Unless another extreme weather event occurs in 2015, the Consumer Advocate Division expects gas prices to decline in 2015 compared to 2014. 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, the rates of West Virginia's two largest electric utilities, Appalachian Power Company³ and Monongahela Power Company,⁴ declined. The dramatic shifts in the electric utility industry in 2013 continued in 2014. The combination of increased competition from natural gas-generated electricity and stricter environmental regulations caused both major utilities to announce closings of several older, less efficient, coal-fired power plants in West Virginia.

In 2014, Wheeling Power Company, a West Virginia affiliate of Appalachian Power, initiated a proceeding to acquire a 50% interest (800MW) in the Mitchell coal-fired power plant from its unregulated affiliate. The cost of the transaction will be about \$535 million. The transaction was approved in December 2014.

In 2014, the Public Service Commission issued orders decreasing the fuel component of Appalachian Power's rates by about \$5 million and increasing the fuel component of Monongahela Power's rates by \$49 million.

Unfortunately, most indicators point to continued pressure on electricity rates in the future. Costs of increased environmental regulation, recent developments in the participation of demand response in the PJM energy and capacity markets, and the EPA's new Clean Power Plan all indicate the costs of producing electricity will increase. The increased cost of electricity since 2008 is placing a significant burden on household budgets in West 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."

³ Parent Company American Electric Power. The rates for Appalachian Power are also applied to customers served by Wheeling Power Company

⁴ Parent Company FirstEnergy. The rates for Monongahela Power are also applied to customers served by The Potomac Edison Company.

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 investments 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 about 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 internet service in West Virginia. Frontier's activities have increased the availability of high speed internet service to over 90% of households in the former Verizon service area.

Water

A General Investigation into the January 2014 contamination of the water of West Virginia American Water Company (WVAWC) was initiated in 2014. The Consumer Advocate Division is actively participating in this case, which it expects to be resolved in 2015. The only base rate case for water in 2014 was Beckley Water Company which filed for a \$2.26 million increase. The Commission approved an increase of \$1.19 million, a 10.14% increase in base rates to be effective in February 2015.

Conclusion

The next year 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 I. The Residential Rate Study is also available on the Consumer Advocate Division's web site at <http://www.cad.state.wv.us>.

FOR FURTHER INFORMATION CALL JACKIE ROBERTS AT 304-558-0526.

RESIDENTIAL UTILITY RATE STUDY

CONSUMER ADVOCATE DIVISION

OF THE

PUBLIC SERVICE COMMISSION OF WEST VIRGINIA

JANUARY 2015

Table 1
Consumer Advocate Division: Annual Utility Rate Study
WEST VIRGINIA 2014 RATE DECISIONS

	Requested (\$/Million)	Granted (\$/Million)
ELECTRICITY		
AEP (ENEC)*	\$ 68.00	\$ (4.72)
AEP (EE/DR)	10.00	10.00
AEP Generation**	118.00	93.00
FirstEnergy (ENEC)***	65.82	49.00
FirstEnergy Rate Case****	151.60	55.63
First Energy EE/DR	8.20	8.20
Subtotal Electricity	\$ 421.62	\$ 211.11
GAS		
Mountaineer (PGA)	\$ 22.60	\$ 22.60
Hope (PGA)	(3.20)	(2.70)
Peoples (PGA)	0.80	0.80
Bluefield (PGA)	0.28	0.28
Subtotal Gas	\$ 20.48	\$ 20.98
WATER		
Beckley*****	\$ 2.25	\$ 1.24
TELEPHONE	n/a	n/a
TOTAL	\$ 444.35	\$ 233.33

* American Electric Power's West Virginia electric operating utility is Appalachian Power Company.

** Petition to acquire one-half (800 MW) Mitchell generating plant for \$535.9 million, rate impact of \$118 million. This transaction excludes the Connor Run Wet Ash Impoundment and all liability therefor. When the transaction closes in 2015 base rates will increase and ENEC rates will decrease.

*** FirstEnergy's West Virginia electric operating utilities are Mon Power and PE.

**** A base rate increase comprised of \$15 million and vegetation management surcharge of \$47.5.

***** This increase was granted in 2014 and will be effective in 2015.

Table 2**Consumer Advocate Division: Annual Utility Rate Study****WV RESIDENTIAL CUSTOMERS:****MONTHLY UTILITY COST JANUARY 2014 & 2015**

	<u>January 2014</u>	<u>January 2015</u>	<u>% Change</u>
Gas - 13 MCF of Gas			
1. Mountaineer Gas	\$ 118.28	\$ 131.22	10.9%
2. Bluefield Gas	138.75	147.74	6.5%
3. Equitable Gas	134.85	142.39	5.6%
4. West Virginia Power Gas	118.28	131.22	10.9%
5. Hope Gas	\$ 121.17	\$ 114.86	-5.2%
Electric - 1000 kWh of Electricity			
1. Appalachian Power	\$ 93.83	\$ 93.77	-0.1%
2. Wheeling Power	93.83	93.77	-0.1%
3. Potomac Edison	92.62	92.38	-0.3%
4. Monongahela Power	92.62	92.38	-0.3%
5. West Virginia Power	\$ 92.62	\$ 92.38	-0.3%
Telephone - Flat Rate, Single Party*			
1. Frontier/Verizon	\$ 27.62	\$ 29.64	7.3%
2. Frontier	\$ 29.62	\$ 29.64	0.1%
Company or Municipality - 4,500 Gallons			
1. West Virginia American Water	\$ 54.07	\$ 54.07	0.0%
2. Municipal Systems (detail on Table 3)	\$ 38.63	\$ 38.63	4.2%

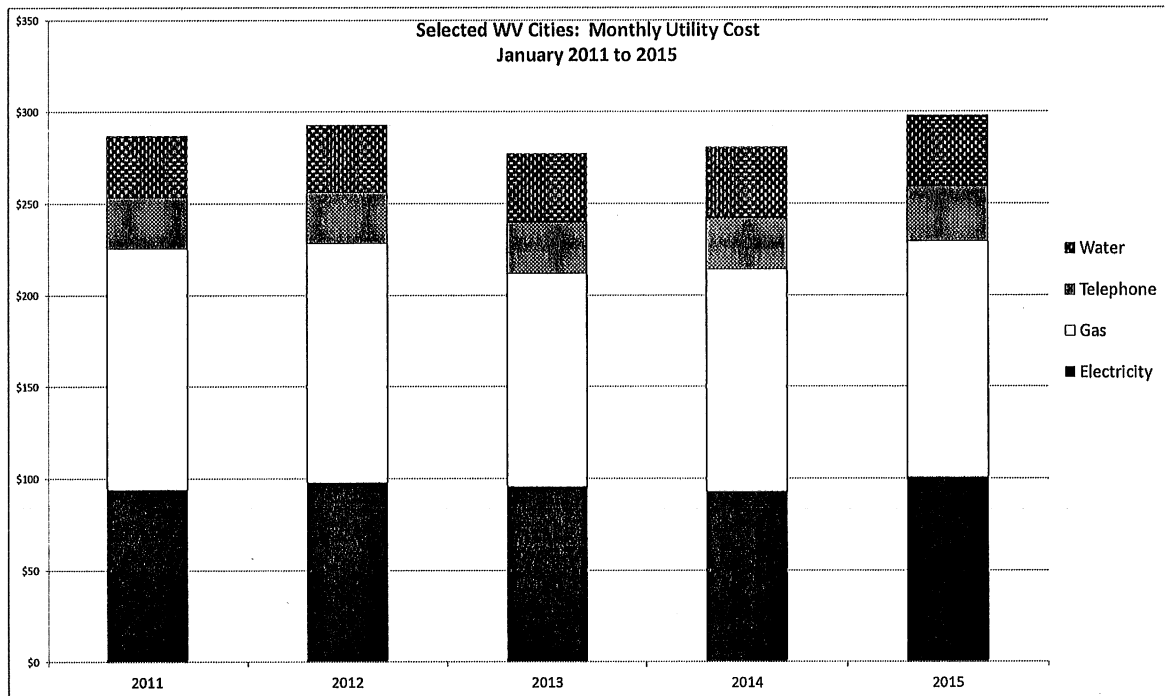
* Includes \$6.50 federal subscriber line charge, federal universal service credit, federal universal service surcharge and \$0.10 deaf relay charge. Frontier/Verizon rate change of \$2.02 reflects the elimination of the federal universal service credit.

Table 3

Consumer Advocate Division: Annual Utility Rate Study
 RESIDENTIAL CUSTOMERS: SELECTED CITIES WV & SURROUNDING STATES
 MONTHLY UTILITY COST JANUARY 2015

WEST VIRGINIA			2015		2015		2015		2015		2014 to 2015:	
	City	Electricity	Gas	Telephone	Water	Total	% Change					
1	Morgantown	\$ 92.38	\$ 114.86	\$ 29.64	\$ 17.42	\$ 254.30	-1.7%					
2	Clarksburg	92.38	114.86	29.64	34.65	271.53	-1.6%					
3	Parkersburg	92.38	114.86	29.64	34.98	271.86	-1.6%					
4	Logan	93.77	131.22	29.64	25.20	279.83	5.6%					
5	Fairmont	92.38	114.86	29.64	44.35	281.23	-1.6%					
6	Elkins	92.38	131.22	29.64	28.22	281.46	5.5%					
7	Weirton	92.38	131.22	29.64	31.01	284.25	5.5%					
8	Wheeling	93.77	131.22	29.64	29.98	284.61	5.5%					
9	Martinsburg	92.38	131.22	29.64	34.00	287.24	5.4%					
10	Beckley	93.77	131.22	29.64	33.25	287.88	5.5%					
11	Lewisburg	92.38	131.22	29.64	39.20	292.44	5.3%					
12	Grafton	92.38	142.39	29.64	34.11	298.52	3.2%					
13	Hinton	92.38	131.22	29.64	54.07	307.31	5.0%					
14	Charleston	93.77	131.22	29.64	54.07	308.70	5.1%					
15	Huntington	93.77	131.22	29.64	54.07	308.70	5.1%					
16	Oak Hill	93.77	131.22	29.64	54.07	308.70	5.1%					
17	Bluefield	\$ 93.77	\$ 147.74	\$ 29.64	\$ 54.07	\$ 325.22	2.8%					
Average		\$ 92.95	\$ 129.00	\$ 29.64	\$ 38.63	\$ 290.22	3.4%					
SURROUNDING STATES												
	Lexington, KY	\$ 93.48	\$ 153.59	\$ 29.25	\$ 36.30	\$ 312.62						
	Pittsburgh, PA	\$ 150.84	\$ 129.09	\$ 23.77	\$ 60.96	\$ 364.66						
	Columbus, OH	167.20	107.39	25.31	14.36	314.26						
	Richmond, VA	116.33	171.56	29.47	32.70	350.06						
	Baltimore, MD	134.88	139.31	29.61	24.56	328.36						
Average		\$ 132.55	\$ 140.19	\$ 27.48	\$ 33.78	\$ 333.99						

Table 4
Consumer Advocate Division: Annual Utility Rate Study
RESIDENTIAL CUSTOMERS: SELECTED CITIES WV
MONTHLY UTILITY COST JANUARY 2011-2015



AVERAGE FOR SELECT WV CITIES*

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>Change</u> <u>2011 -2015</u>
Electricity	\$ 94	\$ 98	\$ 96	\$ 93	\$ 93	7%
Gas	131	130	116	121	129	-2%
Telephone	28	28	28	28	30	7%
Water	34	37	37	39	39	15%
TOTAL	\$ 287	\$ 293	\$ 277	\$ 281	\$ 290	4%

* Cities included in average are shown on Table 3.

Table 5
Consumer Advocate Division: Annual Utility Rate Study
RESIDENTIAL CUSTOMERS: SELECTED CITIES WV
MONTHLY UTILITY COST JANUARY 2011-2015

	2011	2012	2013	2014	2015	2011 to 2015: % Chg
WHEELING						
Wheeling Power	\$ 91.21	\$ 96.75	\$ 96.75	\$ 92.62	93.77	3%
Mountaineer Gas	134.92	126.74	113.13	121.16	131.22	-3%
Verizon/Frontier	27.71	27.71	27.60	27.62	29.64	7%
City Water	<u>22.86</u>	<u>22.86</u>	<u>29.98</u>	<u>44.35</u>	<u>29.98</u>	31%
Total	\$276.70	\$274.06	\$267.45	\$285.75	284.61	3%
CHARLESTON						
APCO	\$ 91.21	\$ 96.75	\$ 96.75	\$ 92.62	\$ 93.77	3%
Mountaineer Gas	134.92	126.74	113.13	118.28	131.22	-3%
Verizon/Frontier	27.71	27.71	27.60	27.62	29.64	7%
WV-American	<u>50.50</u>	<u>50.50</u>	<u>50.50</u>	<u>54.07</u>	<u>54.07</u>	7%
Total	\$ 304.34	\$ 301.71	\$ 287.98	\$ 292.59	\$ 308.70	1%
FAIRMONT						
Mon. Power	\$ 96.24	\$ 99.09	\$ 95.16	\$ 93.83	\$ 92.38	-4%
Hope Gas	117.12	138.78	125.50	118.28	114.86	-2%
Verizon/Frontier	27.71	27.71	27.60	27.62	29.64	7%
City Water	<u>39.20</u>	<u>38.84</u>	<u>39.92</u>	<u>54.07</u>	<u>44.35</u>	13%
Total	\$ 280.27	\$ 304.42	\$ 288.17	\$ 293.80	\$ 281.23	0%
MARTINSBURG						
Potomac Edison	\$ 96.24	\$ 99.09	\$ 95.16	\$ 92.62	\$ 92.38	-4%
Mountaineer Gas	134.92	126.74	113.13	121.16	131.22	-3%
Verizon/Frontier	27.71	27.71	27.60	27.62	29.64	7%
City Water	<u>31.32</u>	<u>28.33</u>	<u>28.33</u>	<u>34.65</u>	<u>34.00</u>	9%
Total	\$ 290.19	\$ 281.87	\$ 264.21	\$ 276.05	\$ 287.24	-1%

Table 6

**Consumer Advocate Division: Annual Utility Rate Study
RESIDENTIAL CUSTOMERS: SELECTED CITIES WV & SURROUNDING STATES
MONTHLY UTILITY COST JANUARY 2015: ELECTRICITY**

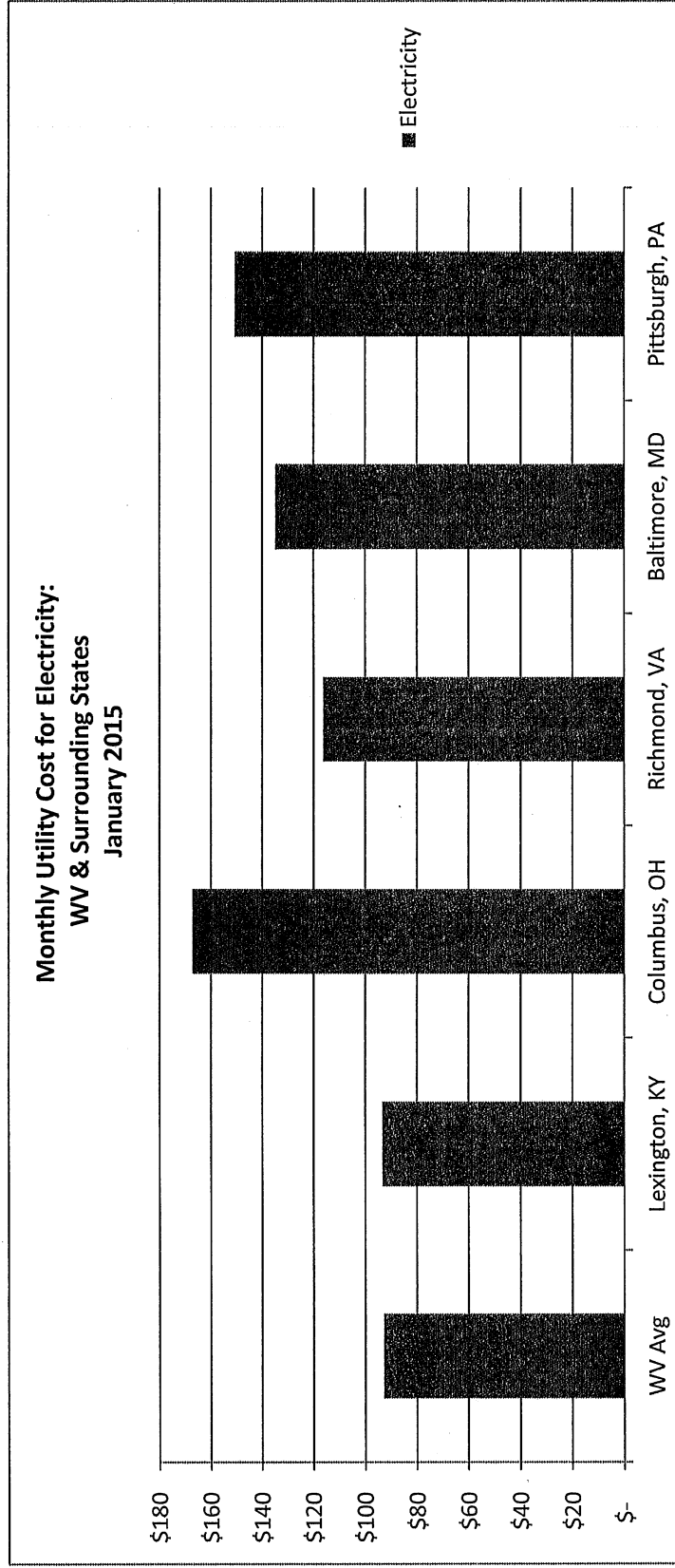


Table 7

Consumer Advocate Division: Annual Utility Rate Study
 RESIDENTIAL CUSTOMERS: SELECTED CITIES WV & SURROUNDING STATES
 MONTHLY UTILITY COST JANUARY 2015: GAS

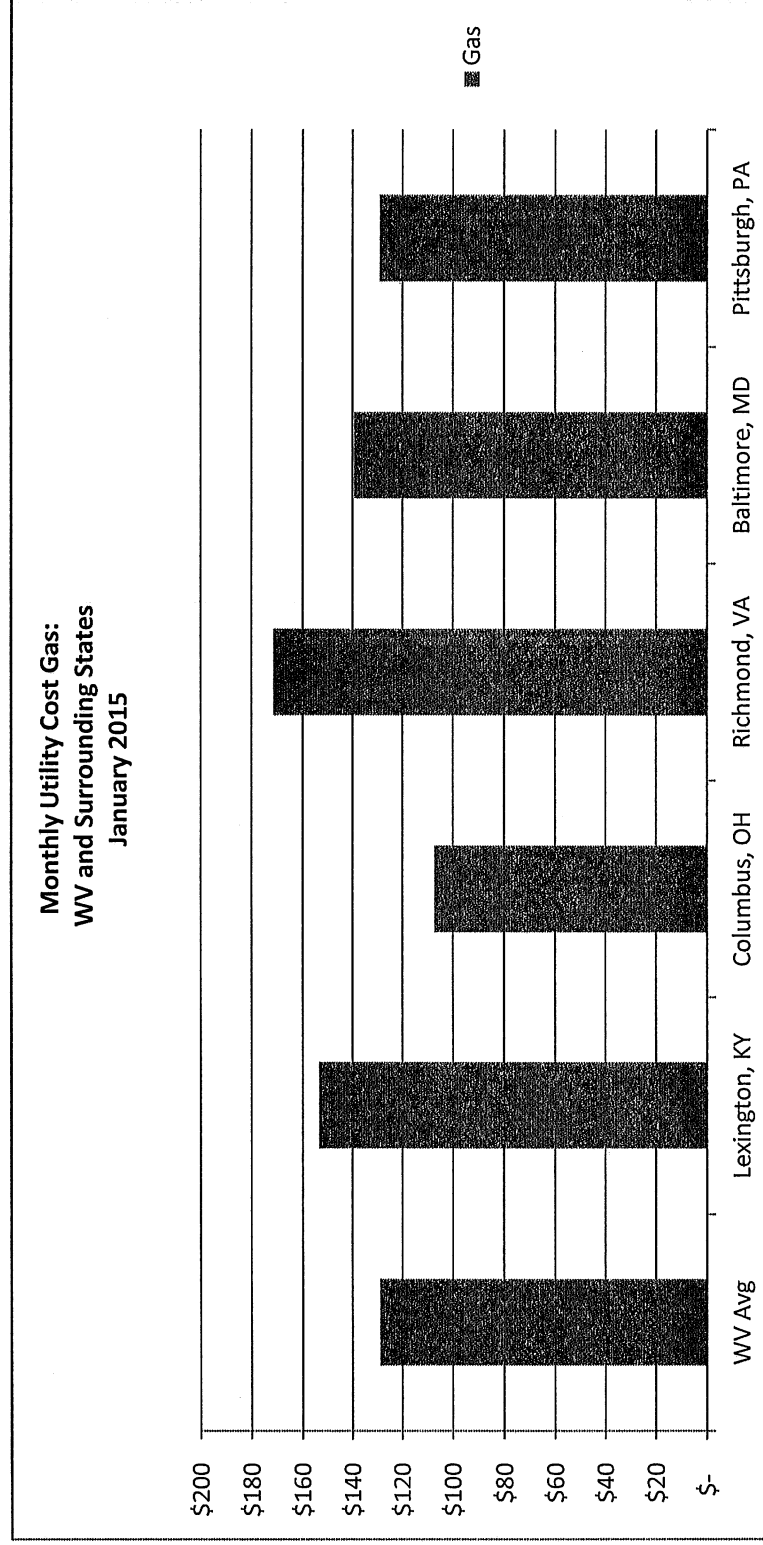


Table 8

Consumer Advocate Division: Annual Utility Rate Study
RESIDENTIAL CUSTOMERS: SELECTED CITIES WV & SURROUNDING STATES
MONTHLY UTILITY COST JANUARY 2015: TELEPHONE

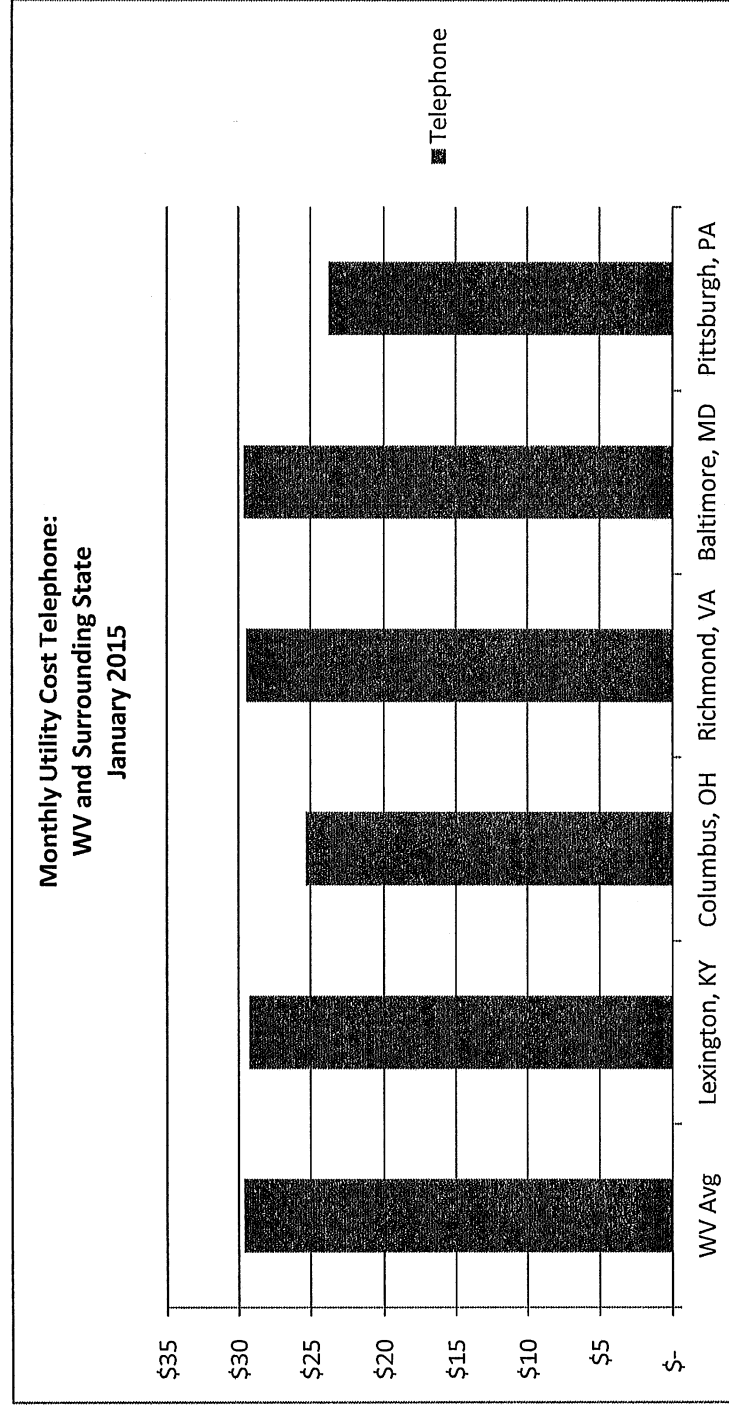


Table 9
Consumer Advocate Division: Annual Utility Rate Study
RESIDENTIAL CUSTOMERS: SELECTED CITIES WV & SURROUNDING STATES
MONTHLY UTILITY COST JANUARY 2015: WATER

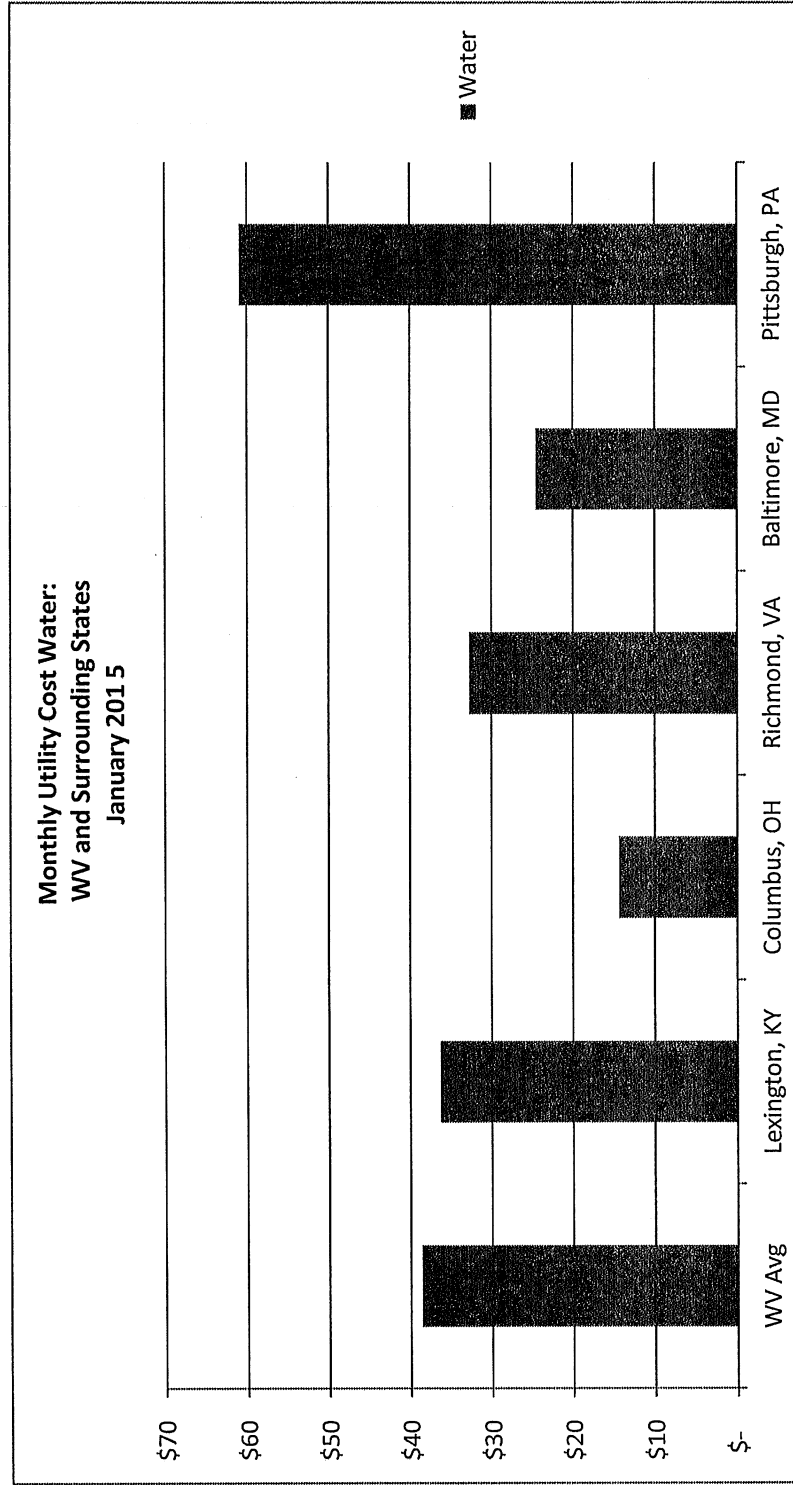


Table 10

**Consumer Advocate Division: Annual Utility Rate Study
RESIDENTIAL CUSTOMERS: SELECTED CITIES WV & SURROUNDING STATES
MONTHLY UTILITY COST JANUARY 2015: ALL UTILITIES**

