

STATE OF WEST VIRGINIA

CONSUMER ADVOCATE DIVISION

2016 ANNUAL REPORT

COMPARATIVE RESIDENTIAL RATE STUDY



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 2016 ANNUAL REPORT

COMPARATIVE RESIDENTIAL RATE STUDY

2015 OVERALL UTILITY RATES DECREASED SLIGHTLY

Natural Gas Rate Decreases Offset Electric Rate Increases

West Virginia utility rates decreased slightly in 2015. Natural gas rates decreased an average of 20% and electric rates increased by an average of 18%. Telephone and water rates were unchanged.

2015 Rate Cases

In 2015, West Virginia utilities requested rate increases of approximately \$638 million. The Public Service Commission (PSC) rendered decisions in those cases approving overall rate increases of approximately \$364 million, as shown in Appendix I, Table 1 of this report. The Consumer Advocate Division participated in more than 25 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 in West Virginia and compares them to the rates in cities of adjacent states.

Year to Year Rate Comparison

Rates for the largest electric, gas, telephone, and water companies in West Virginia in 2015 and 2016 are shown in Appendix I, Table 2. As shown on Appendix I, Table 3, in January 2016 a utility customer in West Virginia paid an average of \$287.99, for electricity, gas, water, and telephone service, a decrease of about 1% from the 2015 average of \$290.22.

Appendix I, Table 4 shows the average monthly West Virginia utility bills for the five year period ending January 2016. The average monthly bill in 2016 was \$288, a 2% decrease from the 2012 amount of \$293. During the five year period, electric bills showed the greatest increase: 12%. For the same five year period, telephone bills were up 7% and water bills increased 6%.² Natural gas bills decreased by 16%.

Appendix I, Table 5 shows the average monthly bills in West Virginia cities for January 2016.

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.

²These calculations do not include the 28% rate increase requested by West Virginia American Water Company. That case is pending before the Commission and a decision is expected in February.

City to City Rate Comparison

Of the seventeen cities included in Appendix I, Table 3, Morgantown residents enjoy the lowest utility costs, while Charleston, Huntington, and Oak Hill customers have the highest utility costs. Natural gas and water costs created the greatest rate disparity in West Virginia. For example, customers served by the Morgantown Utility Board paid \$17.42 for 4,500 gallons of water while customers of West Virginia American Water Company (WVAWC) paid \$54.07 for the same amount of water.^{3, 4} Similarly, Hope gas customers paid \$87.82 for 13 MCF of natural gas while Bluefield Gas customers paid \$147.74 for the same amount. Appendix I, Table 3 shows the monthly change in utility costs of the seventeen cities in the survey ranked from least expensive to most expensive.

Comparison with Rates in Surrounding States

The overall costs of utility service in seventeen West Virginia cities were lower than costs in some cities in adjacent states.⁵ The monthly utility bills for out of state cities range from \$251.26 in Lexington, Kentucky to \$327.07 in Pittsburgh, Pennsylvania.⁶ The average monthly bill for the out of state cities is \$290.96, while the monthly average for West Virginia cities is \$287.99.⁷

Appendix I, Tables 6 – 10 compare the average monthly utility bills in West Virginia to adjacent states. Table 6 shows monthly electric bills in West Virginia are lower than the bills in four of the five comparison cities. Tables 7, 8, and 9 show that

³ These calculations do not include the 28% rate increase requested by West Virginia American Water Company, which is pending before the Commission.

⁴ Charleston, Huntington, and Oak Hill pay \$310.90 per month for utilities compared to Morgantown customers who pay \$244.51. The difference is \$66.39.

⁵ Appendix I, Table 3 and Table 10.

⁶ Id.

⁷ Id.

monthly utility bills for gas, water and telephone are higher in West Virginia than the comparison cities. The combined utility bills were lower in West Virginia than two of the five comparison cities. Appendix I, Table 10 shows the total average utility cost for West Virginia as compared with the adjacent states.

Review of 2015 Regulatory Actions

Appendix I, Table 1 summarizes the major 2015 West Virginia rate decisions. A large number of electric utility cases resulted in a significant increase in electric rates. Natural gas utility cases caused most natural gas rates to decrease. Municipal water rates⁸ and telephone rates remained about the same. Overall, rates decreased slightly in 2015.

Gas

In 2015, most natural gas customers benefitted from lower natural gas costs compared to 2012. (Table 4). Currently the statewide average cost for 13 MCF of natural gas is \$110, 16% lower than in 2012.

Some regions of West Virginia are still served by Gulf Coast gas, and cannot access low-priced shale gas. Despite natural gas prices reaching historic lows, there is no guarantee that prices will remain at this level in the future. For example, natural gas prices spiked following the polar vortex in January 2014, and remained high until inventories were replenished. Unless another extreme weather event occurs in 2016, the Consumer Advocate Division expects gas prices to remain low in 2016. The Consumer Advocate Division recommends that customers continue to improve the energy efficiency

⁸This reference is to municipal water rates regulated by the PSC.

of their homes as a buffer against future price increases.

Electricity

The rates of West Virginia's two largest electric utilities, Appalachian Power Company⁹ and Monongahela Power Company,¹⁰ increased in 2015. The dramatic shifts in the electric utility industry continued in 2015. 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 2015, the Public Service Commission issued orders increasing the fuel component of Appalachian Power's rates by about \$30 million and increasing the fuel component of Monongahela Power's rates by almost \$97 million.

Unfortunately, most indicators point to continued pressure on electricity rates in the future. Costs of increased environmental regulation and the EPA's new Clean Power Plan all indicate the costs of electricity will increase. One positive development was the decision by the Supreme Court of the United States¹¹ that demand response can continue to participate in the wholesale electric markets, which has saved retail customers billions of dollars, in the past. Such savings will now continue to be available.

The increased cost of electricity since 2012 is placing a significant burden on

⁹ Parent Company American Electric Power. The rates for Appalachian Power are also applied to customers served by Wheeling Power Company.

¹⁰ Parent Company FirstEnergy. The rates for Monongahela Power are also applied to customers served by The Potomac Edison Company.

¹¹ *Federal Energy Regulatory Commission v. Electric Power Supply Association, et al.* Case No. 14-840 (January 25, 2016).

household budgets in West Virginia. The Consumer Advocate Division recommends that customers continue to improve the energy efficiency of their homes as a buffer against future price increases. 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 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 of West Virginia American Water¹² was initiated in 2014 and is still pending before the Public Service Commission. The Consumer Advocate Division is actively participating in this case, which it expects to be resolved in 2016. WVAWC filed a base rate and depreciation case in 2015, requesting rates which would produce an additional \$32.1 million in revenues for the Company. The cases have been fully litigated and a decision by the PSC is pending.

Conclusion

In 2016 the Consumer Advocate Division expects new challenges for the State's utilities. This includes continued pressure on electricity rates, and concern over the high cost of water service provided by WVAWC. The Consumer Advocate Division will continue its efforts to vigorously protect the interests of residential customers.

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.

¹² Related to the chemical spill January 9, 2014.

Appendix I

Table 1
WEST VIRGINIA 2015 RATE DECISIONS

Consumer Advocate Division: Annual Utility Rate Study

	Requested (\$/Million)	Granted (\$/Million)
ELECTRICITY		
AEP Rate Case*	\$ 226.10	\$ 123.50
AEP (ENEC)**	61.50	30.00
AEP (EE/DR)	10.00	10.00
FirstEnergy (ENEC)***	144.50	96.90
FirstEnergy Rate Case****	144.10	62.58
First Energy VMS*****	37.70	36.70
Subtotal Electricity	\$ 623.90	\$ 359.68
GAS		
Mountaineer Rate Case	\$ 12.20	\$ 7.70
Mountaineer 390	0.50	0.50
Mountaineer (PGA)	(28.50)	(33.70)
Hope (PGA)	30.10	30.10
Peoples (PGA)	(3.00)	(3.20)
Bluefield (PGA)	2.70	2.70
Subtotal Gas	\$ 14.00	\$ 4.10
WATER		
WVAWC Rate Case*****	\$ 32.10	\$ -
TELEPHONE		
	n/a	n/a
TOTAL (Excludes WVAWC)	\$ 637.90	\$ 363.78

* A base rate increase comprised of \$79 million and vegetation management surcharge of \$44.5 million.

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

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

**** FirstEnergy's 2014 rate case - per Final Commission Order February 2015.

***** VMS = Vegetation Management Surcharge

***** West Virginia American Water Company rate case - Commission Order pending as of January 2016.

Table 2
WV RESIDENTIAL CUSTOMERS:
MONTHLY UTILITY COST JANUARY 2015 & 2016

Consumer Advocate Division: Annual Utility Rate Study

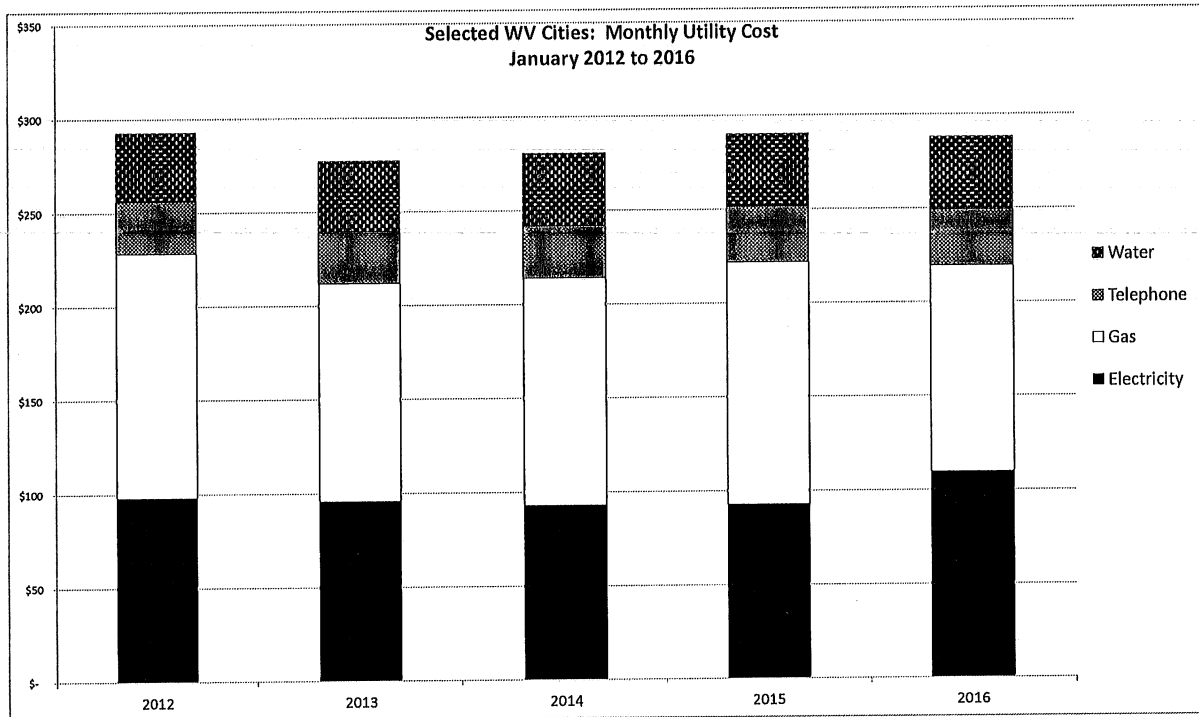
	<u>January 2015</u>	<u>January 2016</u>	<u>% Change</u>
Gas - 13 MCF of Gas			
1. Mountaineer Gas	\$ 131.22	\$ 117.28	-10.6%
2. Bluefield Gas	147.74	116.58	-21.1%
3. Equitable Gas	142.39	110.28	-22.5%
5. Hope Gas	\$ 114.86	\$ 87.82	-23.5%
 Electric - 1000 kWh of Electricity			
1. Appalachian Power	\$ 93.77	\$ 109.82	17.1%
2. Wheeling Power	93.77	109.82	17.1%
3. Potomac Edison	92.38	109.54	18.6%
4. Monongahela Power	92.38	109.54	18.6%
5. West Virginia Power	\$ 92.38	\$ 109.54	18.6%
 Telephone - Flat Rate, Single Party*			
1. Frontier/Verizon	\$ 29.64	\$ 29.73	0.3%
2. Frontier	\$ 29.64	\$ 29.73	0.3%
 Company or Municipality - 4,500 Gallons			
1. West Virginia American Water	\$ 54.07	\$ 54.07	0.0%
2. Municipal Systems (detail on Table 3)	\$ 32.20	\$ 32.31	0.4%

* 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
RESIDENTIAL CUSTOMERS: SELECTED CITIES WV & SURROUNDING STATES
MONTHLY UTILITY COST JANUARY 2016
Consumer Advocate Division: Annual Utility Rate Study

	2016 <u>Electricity</u>	2016 <u>Gas</u>	2016 <u>Telephone</u>	2016 <u>Water</u>	2016 <u>Total</u>	2015 to 2016: <u>% Change</u>
WEST VIRGINIA						
<u>City</u>						
1 Morgantown	\$ 109.54	\$ 87.82	\$ 29.73	\$ 17.42	\$ 244.51	-3.8%
2 Clarksburg	109.54	87.82	29.73	34.79	261.88	-3.6%
3 Parkersburg	109.54	87.82	29.73	34.98	262.07	-3.6%
4 Fairmont	\$ 109.54	87.82	29.73	39.92	267.01	-5.1%
5 Logan	109.82	117.28	29.73	25.20	282.03	0.8%
6 Grafton	109.54	110.28	29.73	34.11	283.66	-5.0%
7 Wheeling	109.82	117.28	29.73	29.98	286.81	0.8%
8 Weirton	109.54	117.28	29.73	31.01	287.56	1.2%
9 Beckley	109.82	117.28	29.73	33.03	289.86	0.7%
10 Elkins	109.54	117.28	29.73	33.73	290.28	3.1%
11 Martinsburg	109.54	117.28	29.73	34.34	290.89	1.3%
12 Lewisburg	109.82	117.28	29.73	39.20	296.03	1.2%
13 Bluefield	\$ 109.82	\$ 116.58	\$ 29.73	\$ 54.07	\$ 310.20	-4.6%
14 Hinton	109.82	117.28	29.73	54.07	310.90	1.2%
15 Charleston	109.82	117.28	29.73	54.07	310.90	0.7%
16 Huntington	109.82	117.28	29.73	54.07	310.90	0.7%
17 Oak Hill	109.82	117.28	29.73	54.07	310.90	0.7%
Average	\$ 109.69	\$ 109.90	\$ 29.73	\$ 38.71	\$ 288.02	-0.8%
SURROUNDING STATES						
Lexington, KY	\$ 98.95	\$ 86.41	\$ 29.60	\$ 36.30	\$ 251.26	-19.6%
Columbus, OH	135.97	85.74	26.03	15.03	262.77	-16.4%
Richmond, VA	112.67	121.63	29.59	34.59	298.48	-14.7%
Baltimore, MD	144.38	116.29	30.00	24.56	315.23	-4.0%
Pittsburgh, PA	147.03	\$ 94.93	\$ 24.16	60.95	\$ 327.07	-10.3%
Average	\$ 127.80	\$ 101.00	\$ 27.88	\$ 34.29	\$ 290.96	-12.9%

Table 4
RESIDENTIAL CUSTOMERS: SELECTED CITIES WV
MONTHLY UTILITY COST JANUARY 2012-2016
 Consumer Advocate Division: Annual Utility Rate Study



AVERAGE FOR SELECT WV CITIES*

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	Change 2012 -2016
Electricity	\$ 98	\$ 96	\$ 93	\$ 93	\$ 110	12%
Gas	130	116	121	129	110	-16%
Telephone	28	28	28	30	30	7%
Water	37	37	39	39	39	6%
TOTAL	\$ 293	\$ 277	\$ 281	\$ 290	\$ 288	-2%

* Cities Included in average are shown on Table 3.

Table 5
MONTHLY UTILITY COST JANUARY 2012-2016
RESIDENTIAL CUSTOMERS: SELECTED CITIES WV
Consumer Advocate Division: Annual Utility Rate Study

	2012	2013	2014	2015	2016	2012 to 2016: % Chg
WHEELING						
Wheeling Power	\$ 96.75	\$ 96.75	\$ 93.83	\$ 93.77	109.82	14%
Mountaineer Gas	126.74	113.13	118.28	131.22	117.28	-7%
Verizon/Frontier	27.71	27.60	27.62	29.64	29.73	7%
City Water	22.86	29.98	25.20	29.98	29.98	31%
Total	\$274.06	\$267.45	\$264.93	\$284.61	286.81	5%
CHARLESTON						
APCO	\$ 96.75	\$ 96.75	\$ 93.83	\$ 93.77	\$ 109.82	14%
Mountaineer Gas	126.74	113.13	138.73	131.22	117.28	-7%
Verizon/Frontier	27.71	27.60	29.62	29.64	29.73	7%
WV-American	50.50	50.50	54.07	54.07	54.07	7%
Total	\$ 301.71	\$ 287.98	\$ 316.25	\$ 308.70	\$ 310.90	3%
FAIRMONT						
Mon. Power	\$ 99.09	\$ 95.16	\$ 93.83	\$ 92.38	\$ 109.54	11%
Hope Gas	138.78	125.50	118.28	114.86	87.82	-37%
Verizon/Frontier	27.71	27.60	27.62	29.64	29.73	7%
City Water	38.84	39.92	54.07	44.35	39.92	3%
Total	\$ 304.42	\$ 288.17	\$ 293.80	\$ 281.23	\$ 267.01	-12%
MARTINSBURG						
Potomac Edison	\$ 99.09	\$ 95.16	\$ 92.62	\$ 92.38	\$ 109.54	11%
Mountaineer Gas	126.74	113.13	121.16	131.22	117.28	-7%
Verizon/Frontier	27.71	27.60	27.62	29.64	29.73	7%
City Water	28.33	28.33	34.65	34.00	34.34	21%
Total	\$ 281.87	\$ 264.21	\$ 276.05	\$ 287.24	\$ 290.89	3%

Table 6
MONTHLY UTILITY COST JANUARY 2016: ELECTRICITY
RESIDENTIAL CUSTOMERS: SELECTED CITIES WV & SURROUNDING STATES
 Consumer Advocate Division: Annual Utility Rate Study

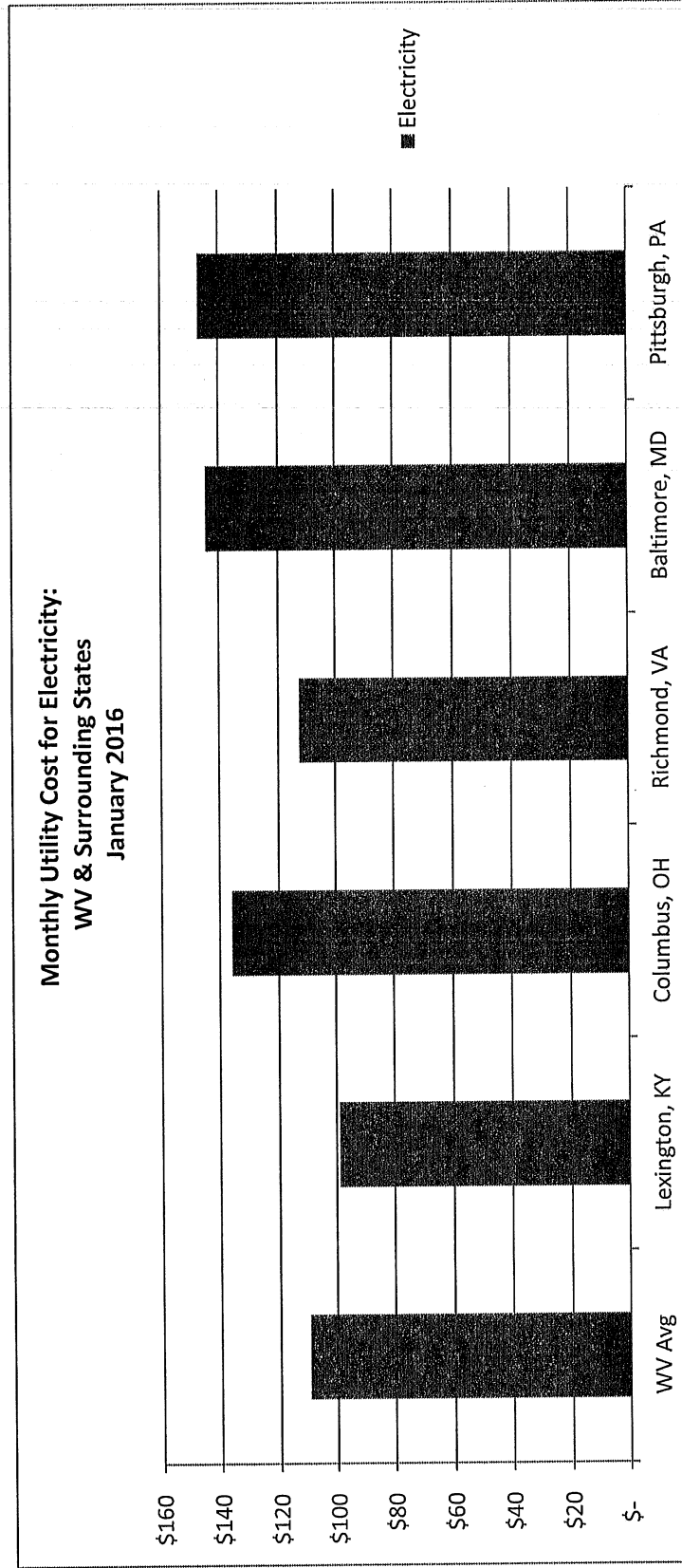


Table 7
RESIDENTIAL CUSTOMERS: SELECTED CITIES WV & SURROUNDING STATES
MONTHLY UTILITY COST JANUARY 2016: GAS
 Consumer Advocate Division: Annual Utility Rate Study

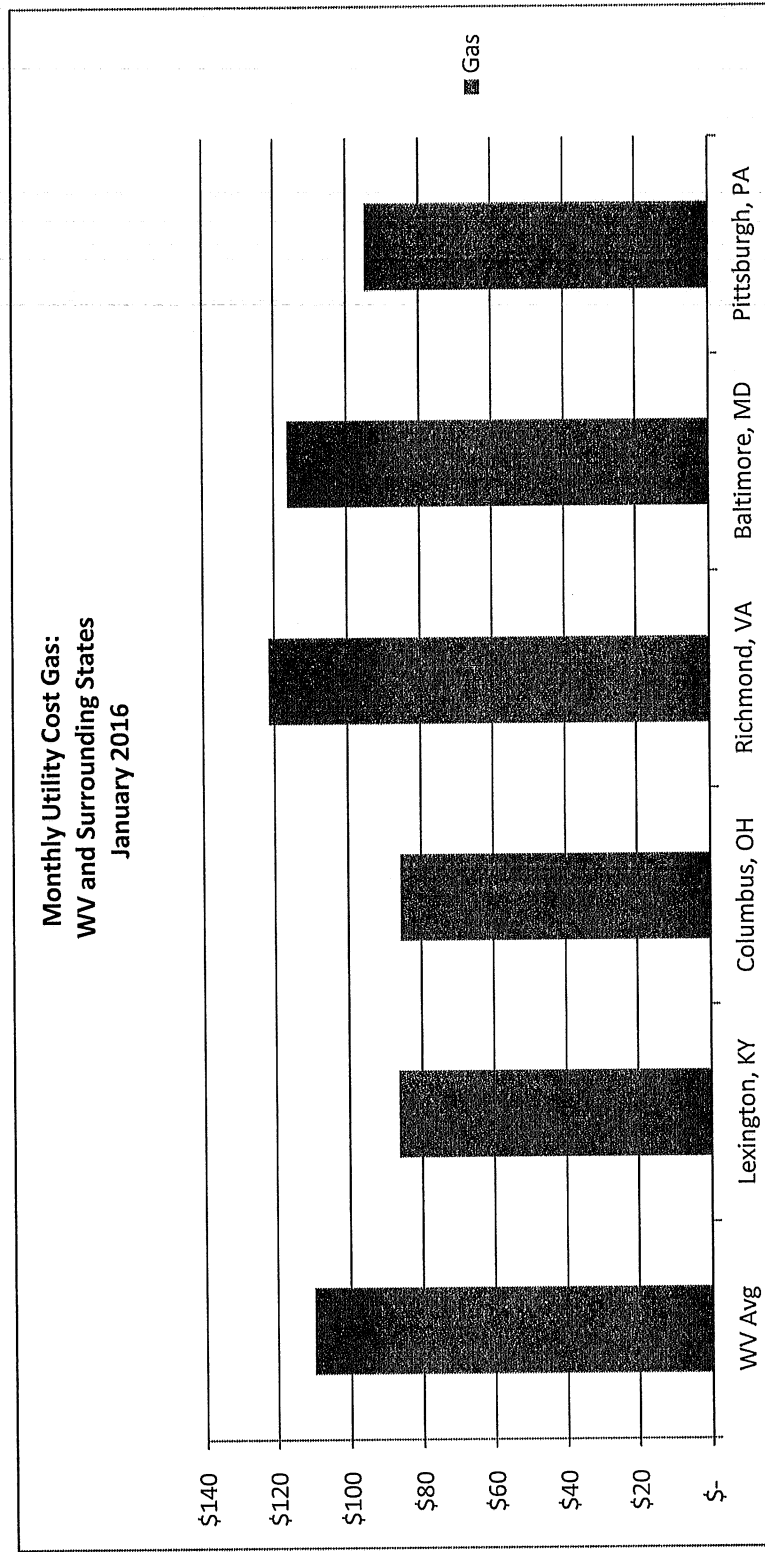


Table 8
RESIDENTIAL CUSTOMERS: SELECTED CITIES WV & SURROUNDING STATES
MONTHLY UTILITY COST JANUARY 2016: TELEPHONE
 Consumer Advocate Division: Annual Utility Rate Study

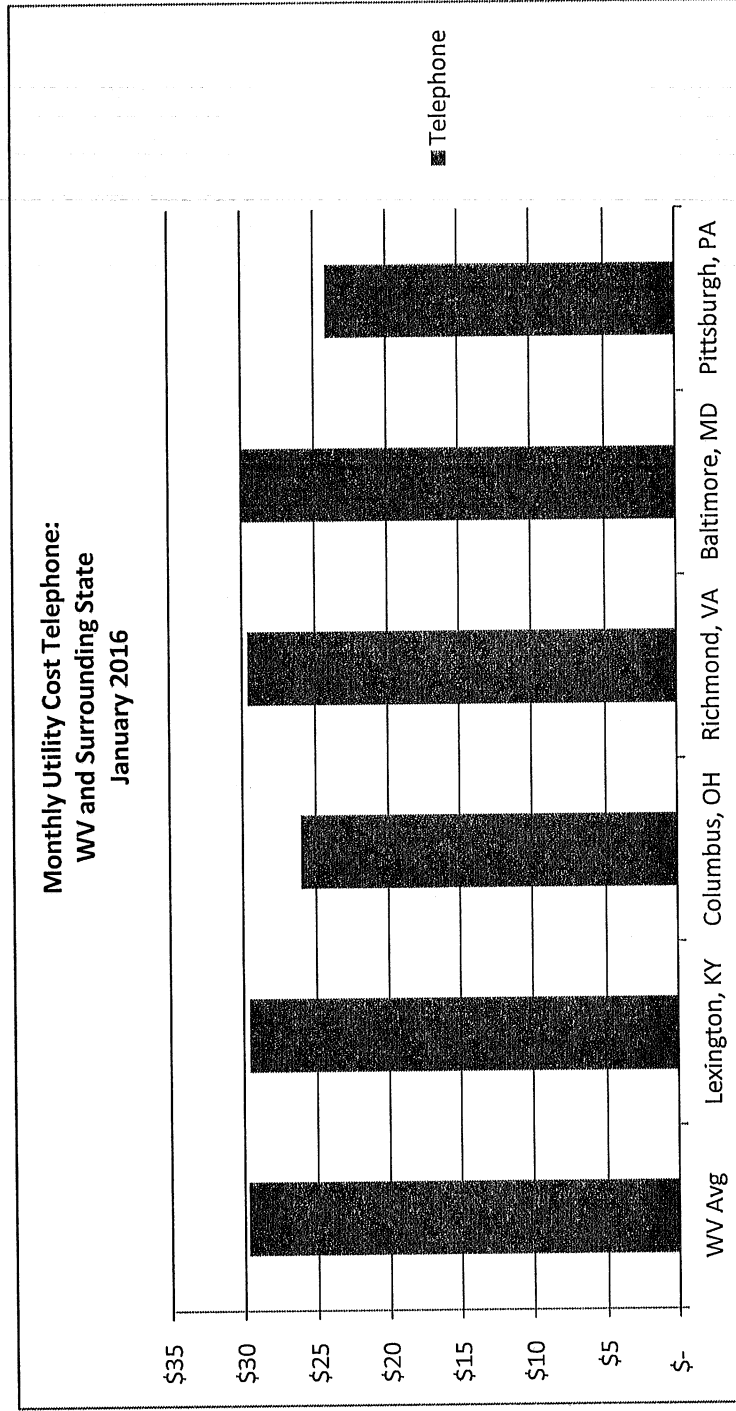


Table 9
RESIDENTIAL CUSTOMERS: SELECTED CITIES WV & SURROUNDING STATES
MONTHLY UTILITY COST JANUARY 2016: WATER

Consumer Advocate Division: Annual Utility Rate Study

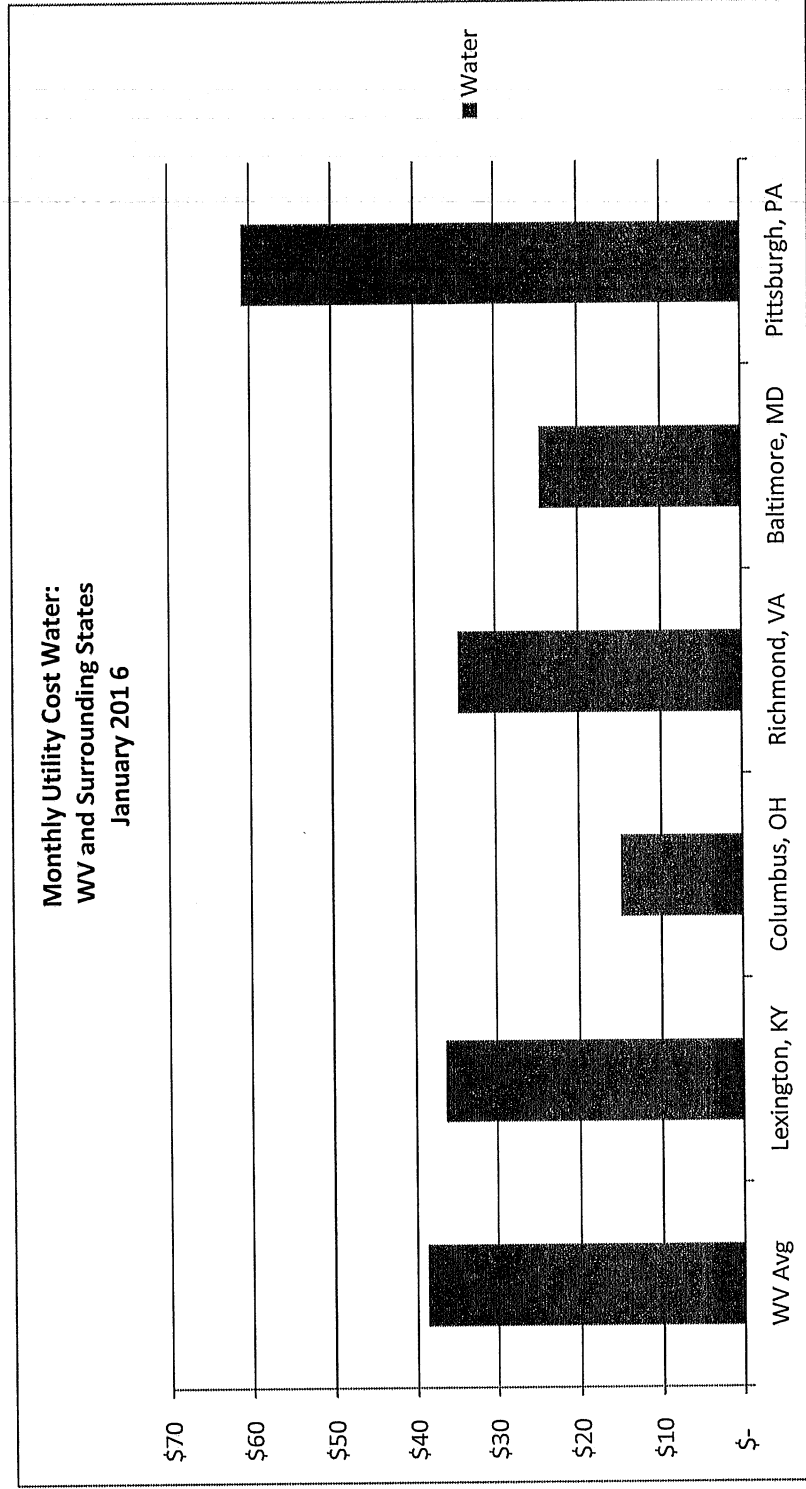


Table 10
RESIDENTIAL CUSTOMERS: SELECTED CITIES WV & SURROUNDING STATES
MONTHLY UTILITY COST JANUARY 2016: ALL UTILITIES

Consumer Advocate Division: Annual Utility Rate Study

