Public Service Commission
Of West Virginia

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RE: Case No. 14-0345-E-P
Appalachian Power Company and
Wheeling Power Company, both
dba American Electric Power

Ladies and Gentlemen:

Staff Memorandum issued today was served via email on the above-listed parties. If you wish to respond to Staff Memorandum you may do so in writing, within 10 days, unless directed otherwise, of this date. You will not receive a copy of the Staff Memorandum by regular mail.

Your failure to respond in writing to the utility's answer, Staff's recommendations, or other documents may result in a decision in your case based on your original filing and the other documents in the case file, without further hearing or notice.

When you provide an email address you will automatically receive electronic docket notifications as documents are filed in this proceeding. The email notifications allow recipients to view a document within an hour from the time the filing is processed.

If you have not done so, you are requested to file the Electronic Mail Agreement, previously mail to you, which allows the Commission to serve all <u>orders</u> issued in this matter via electronic docket notification.

Please note - the Public Service Commission does not accept electronic filings. Therefore, if you wish to respond to the Staff Memorandum you must do so in writing submitted to the Executive Secretary's Office at the above address.

Sincerely,

Ingrid Ferrell

Ingrid Ferrell, Director
Executive Secretary Division

IF/cg
Attached - Memo

INITIAL JOINT STAFF MEMORANDUM

TO: **INGRID FERRELL**
Executive Secretary

DATE: APRIL 9, 2014

FROM: **JOHN D. LITTLE** JDL
Staff Attorney

02:53 PM APR 09 2014 PSC EXEC S

RE: **CASE NO. 14-0345-E-PC**
APPALACHIAN POWER COMPANY AND WHEELING POWER COMPANY, BOTH DBA AMERICAN ELECTRIC POWER

On March 5, 2014, Appalachian Power Company and Wheeling Power Company, both dba American Electric Power (APCo or the Companies) filed a Petition for review of the Energy Efficiency/Demand Response (EE/DR) program rates. This Petition is an outgrowth of the 2010 ENEC proceeding, in which the Commission ordered the Companies to implement four EE/DR programs and to file annually for review of the EE/DR programs. The four EE/DR programs are: (1) Smart Lighting; (2) Residential HomeSMART Energy Audit; (3) Commercial and Industrial Prescriptive Program; and (4) Residential Low Income Program. The Commission implemented a surcharge allowing the Companies to collect $6.1 million annually to recover the costs of the EE/DR programs. See, Case No. 10-0261-E-GI, Appalachian Power Company and Wheeling Power Company both dba American Electric Power, Commission Order October 5, 2010.

In the October 5, 2010 Order, the Commission denied the Companies request for recovery of net lost revenues. The Commission stated that recovery of net lost revenues is better addressed in a base rate proceeding. However, the Commission stated that the Companies were not precluded from requesting recovery of net lost revenues in further EE/DR proceedings. Case No. 10-0261-E-GI, October 5, 2010 Commission Order at 7, 8.

The first review of the EE/DR Programs occurred in 2012. Case No. 12-0275-E-GI, Appalachian Power Company and Wheeling Power Company both dba American Electric Power. The Commission denied the Companies request for recovery of net lost revenues, again stating the issue was better addressed in a base rate proceeding. Case No. 12-0275-E-GI, Commission Order July 26, 2012 at 8.

The second review of the EE/DR programs occurred in 2013. Case No. 13-0462-E-P, Appalachian Power Company and Wheeling Power Company both dba American Electric Power. The Commission found that continuing the EE/DR programs would serve the public interest. The Companies request for lost revenues in the EE/DR proceeding was denied but the Companies are permitted to include lost revenues in the 2014 base rate filing.

Petitions to intervene have been filed by the Consumer Advocate Division and the West Virginia Energy Users Group.

Staff's Initial Findings and Recommendations

In the attached Memorandum, Paul P. Stewart, Contractor on behalf of the Commission's Utilities Division, sets forth his initial findings and recommendations. Mr. Stewart notes the Companies are seeking approval of a financial incentive mechanism for the EE/DR programs. Mr. Stewart notes that the financial incentive mechanism the Companies are requesting is similar to the Companies request in the previous year's EE/DR proceedings.

Mr. Stewart also notes that the Companies propose to add four new EE/DR programs: Manufactured Home ENERGY START Program, Appliances Recycling Program, Residential Demand Reduction/Load Management Program, and Commercial Lighting Program. The current SMART Lighting program is proposed to be expanded to include rebates on LED's and Energy STAR appliances. This program will be renamed the Efficient Products program.

Finally, Mr. Stewart states he will file his final recommendations in accordance with the Commission's procedural order.

Legal Staff agrees with Mr. Stewart recommendation and adds that the Petition's to Intervene of the Consumer Advocate Division and the West Virginia Energy Users Group should be granted. Further, Staff recommends the Commission retain this case.

JDL/s
Attachment

CWS CWS

PUBLIC SERVICE COMMISSION OF WEST VIRGINIA
UTILITIES DIVISION INITIAL MEMORANDUM

From: Paul P. Stewart, Contractor
On Behalf of the Utilities Division

Date: March 28, 2014

Subject: **Case Nos. 14-0345-E-PC**
Appalachian Power Company and Wheeling Power Company
Petition for consent and approval of 2014 Energy Efficiency/ Demand Response (EE/DR) program rates.

On March 5, 2014, Appalachian Power Company (ApCo) and Wheeling Power Company (WPCo) (collectively the Companies) filed a petition for review and determination of Energy Efficiency/Demand Response (EE/DR) program rates. The filing proposes that current program rates effective January 1, 2014, remain in effect for the 2015 program year. The Companies are also seeking Commission approval of a financial incentive mechanism for their EE/DR programs. As in their last EE/DR filing, Case No. 13-0462-E-P, the Companies request that they be authorized to receive five percent of calculated net benefits, after tax, for measurable EE/DR programs. The financial incentive would be calculated on a Utility Cost Test basis with a twelve percent cap of actual incurred program costs. The Companies represent that the financial incentive mechanism is required in order to make their EE/DR programs more financially comparable to supply side options. The Companies state that implementation of a financial incentive would encourage develop of additional cost effective programs and to enhance program performance.

The filing indicates that application of the Companies proposed financial incentive mechanism to 2013 program costs would result in a calculated incentive payment of $651,127. The Companies represent that their proposed incentive mechanism would be less costly to consumers than the alternative financial incentive mechanism discussed by the Commission in the 2013 case order. In further support of their proposed financial incentive mechanism, the Companies state that it follows the predominant approach found in other jurisdictions. The alternative mechanism recommended by Staff in Case No. 13-0462-E-P was based on the Companies earning a return on effective investments in EE/DR programs over the useful lives of those investments through base rates.

The Companies also propose to add four new programs to their existing suite of EE/DR programs. These additional programs are: Manufactured Home ENERGY STAR ® Program, Appliance Recycling Program, Residential Demand Reduction / Load Management Program, and Commercial Lighting Program. The Companies propose to expand the current SMART Lighting program to include rebates on LEDs and ENERGY STAR® Appliances. The program will be renamed as the Efficient Products program. Additionally, the Companies are adding new construction rebates to the current HomeSMART program. The Companies state that these new offerings and enhancements would be paid for by the additional $2.1 million of program budget ordered in Case No. 13-0462-E-P.

Review and examination of this filing has been initiated and recommendations with regard to program rates, the proposed incentive mechanism and other relevant issues will be submitted in accordance with the Commission's procedural order.