**PUBLIC SERVICE COMMISSION
OF WEST VIRGINIA
CHARLESTON**

At a session of the PUBLIC SERVICE COMMISSION OF WEST VIRGINIA in the City of Charleston on the 2nd day of September 2021.

CASE NO. 21-0339-E-ENEC

APPALACHIAN POWER COMPANY AND WHEELING POWER COMPANY.
Petition to initiate the annual review and to update the ENEC rates currently in effect.

COMMISSION ORDER

The Commission (i) approves rates with adjustments, (ii) allows for the recovery of deferred COVID-19 expenses in this case, (iii) disallows the proposed changes for industrial customer rate modification, and (iv) requires the Companies to make changes intended to reduce the cost of fuel in the future.

BACKGROUND

On April 16, 2021, Appalachian Power Company (APCo) and Wheeling Power Company (WPCo) (jointly the Companies), filed their 2021 petition to initiate the annual review and update of Expanded Net Energy Cost (ENEC) rates, supported by the pre-filed testimonies of Nancy A. Heimberger, Jeffrey C. Dial, Clinton M. Stutler, Michael J. Zwick, Ruby A. Greenhowe, and John J. Scalzo. The Companies propose to increase ENEC rates to produce an additional $73 million in annual ENEC revenues in order to achieve an appropriate balance between ENEC costs and revenues. Of that $73 million, $55.4 was for under-recovery of fuel costs, including $32 million in deferred under-recovery collection from 2020, and $17.6 million in projected fuel costs for the period September 1, 2021 through August 31, 2022. The Companies proposed a modification in cost allocation and rate design for large industrial class and special contract customers.

On April 23, 2021, the Companies filed a Motion for Protective Treatment of Exhibits JCD-D1, JCD-D3, and MJZ-D1 attached to the direct testimonies of Jeffrey C. Dial and Michael J. Zwick respectively. The exhibits contain i) data by coal purchase type, price per ton, and total weighted average forecasted price of coal delivered to APCo's generating stations for the forecast period; (ii) information regarding contracts between APCo and certain coal suppliers and the status of those contracts including quantity information; and (iii) historical period equivalent availability factor data for the

Companies' fossil-fueled generating fleet. No party objected to the Motion for Protective Treatment.

On June 3, 2021, the Commission granted intervenor status to the Consumer Advocate Division (CAD), the West Virginia Energy Users Group (WVEUG), and SWVA, Inc. (SWVA). Commission Order, June 3, 2021. The Commission Order also set a procedural schedule and required notice by publication of filing and hearing. The Companies filed Affidavits of Publication. June 22, 2021 and July 21, 2021 filings.

CAD filed the direct testimony of Emily S. Medine in both public and confidential versions. WVEUG filed the direct testimony of Stephen J. Baron and Russ Lang. Commission Staff filed the direct testimony of Geoffrey M. Cooke. July 7, 2021 filings.

The Companies filed an Addendum to the Motion for Protective Treatment on July 15, 2021 seeking protective treatment for information filed in the direct testimony of Emily S. Medine, a witness for CAD. The testimony addresses coal-inventory levels, coal-procurement contracts, and delivered costs for coal including data about coal purchase type, pricing, and quantity – all information that the Companies seek to keep confidential in the original Motion. Addendum at 2. No party objected to the Addendum.

The Companies filed the rebuttal testimony of Jeffrey C. Dial, Clinton M. Stutler, and John J. Scalzo. July 21, 2021 filing.

The evidentiary hearing was held on July 30, 2021. The Companies filed post hearing exhibits, requested by the Commission and CAD, on August 9, 2021. The Companies, CAD, WVEUG, and Staff filed initial briefs. August 10, 2021 Filings. The Companies, Staff, WVEUG, and SWVA filed reply briefs. August 17, 2021 Filings.

DISCUSSION

ENEC Rates

The Companies seek an increase in their ENEC increment of approximately $73 million. The increase includes $55 million in under-recovery, $32 million of which was deferred from Case No. 20-0262-E-ENEC, the Companies' 2020 ENEC case. The Companies agreed with three adjustments recommended by Staff that reduce the ENEC under-recovery balance by $221,318. Staff Exh. GMC-D at 4.

WVEUG is concerned that the proposed ENEC rate increase would be overly burdensome on ratepayers in conjunction with other rate increases this calendar year and the expiration of the Tax Reform Rider credit. WVEUG suggested reducing the recommended increase in ENEC revenues by fifty percent until the Companies' 2022 ENEC proceeding. WVEUG Exh. SJB-D at 12. Under this proposal, the Companies' ENEC increase would be approximately $36.5 million and the deferred amount would be approximately $18.8 million, or half of the prior period under-recovery amount. Id. SWVA supported this recommendation. SWVA Reply Brief at 2-3. WVEUG suggested that the deferral include a two percent carrying charge, a number similar to the amount the Companies earn on short-term debt. WVEUG Initial Brief at 6-7. The Companies argue that, if a portion of the ENEC amount is deferred, the carrying charge should be the pre-tax weighted average cost of capital, short-term debt, and long-term debt. Cos. Exh. JJS-R at 6. CAD requested that if the carrying charge is more than two percent, the Commission not defer half of the residential ratepayers' portion so as not to burden those ratepayers with additional debt caused by the carrying charge. CAD Initial Brief at 8-9.

One of the reasons the Companies' ENEC rate request is so high this year is because the Commission allowed a deferral of $32 million from Case No. 20-0262-E-ENEC because of the economic and health crisis brought on by the COVID-19 pandemic. To continue to defer recovery of ENEC collectibles from year to year will only continue to increase the costs for ratepayers. The Commission will not defer a portion of the ENEC recovery.

Deferred COVID-19 Pandemic Expenses

The Companies request recovery in this case of $2,299,383 in deferred COVID-19 expenses. The Companies argued that in GO 262.4 the Commission allowed deferred expenses related to COVID-19 pandemic to be addressed in future ratemaking proceedings in which the utility requests recovery. GO 262.4, May 15, 2020. Staff argued that the Commission intended that COVID-19 expenses could be considered in the next base rate case and that an ENEC is not the appropriate place to consider these rates. Staff Initial Brief at 3-4. In G.O. 262.4, the Commission did not limit recovery of COVID-19 expenses to base rate cases. Expenses like these typically are considered in a base rate case. The Commission, however, recognizes the unusual nature of the pandemic and the need to recover these expenses in a reasonable amount of time, particularly as the Companies have recently agreed to forgo filing a base rate case until at least June 2024. Case No. 20-1012-E-P, Affidavit, Aug. 25, 2021.

CAD argued that the Commission should not consider COVID-19 expenses in the present case because the Companies have not included cost-savings realized by COVID-19 that could mitigate the expenses. The Companies counter that the Commission allowed recovery of COVID-19 expenses in a recent ENEC case for other electric utilities, therefore, the Commission should also allow APCo and WPCo to collect these expenses in the ENEC. Monongahela Power Co. and The Potomac Edison Co., Case No. 20-0665-E-ENEC, Comm'n Order entered Dec. 16, 2020; Cos. Initial Brief at 7.

For the reasons stated above, the Commission will allow the deferred COVID-19 expenses to be recovered in this case.

Companies' Proposed Change in ENEC Rate Development for Special Contracts

The Companies propose to use a uniform approach to allocate revenue responsibility and to develop levelized rates for LCP customers, IP customers, and special contract customers A, C, D, I, J, and K. Cos. Exh. JJS-D at 7. Testifying for WVEUG, Stephen Baron testified that the proposal has the potential to negatively impact some customers. WVEUG Exh. SJB-D at 13-14. WVEUG objected to this change in allocation of revenue responsibility and stated that the Companies should seek these changes through contract negotiations between the Companies and individual industrial customers. WVEUG Initial Brief at 8-9. SWVA supported the requested change. SWVA Reply Brief at 2.

The Commission finds that the Companies did not provide evidence or a compelling reason to require modification of special contracts in this case. The Commission, therefore, declines to make these changes.

Suggestions for Reduced Fuel Costs

Emily S. Medine, testifying for CAD, suggested several actions the Companies could take to help reduce fuel costs in the future:

a) Review what, if any, changes can be made to reduce reliance on low sulfur coal from central Appalachia including non-traditional sources and power plant modifications;
b) Develop an extended coal procurement strategy to support a stable fuel supply for coal-fired units over an extended period;
c) Review natural gas procurement strategy to determine whether non-indexed purchases should be expanded or a hedging program should be adopted; and
d) Consider strategies that would allow for better management of the volatility in coal burn.

CAD Exh. ESM-D at 4-5.

The Companies argued that they are already pursuing the suggestions of Ms. Medine that are worth pursuing. Cos. Initial Brief at 6; Cos. Exh. JCD-R at 1-3; Cos. Exh. CMS-R at 1-3. The Companies argued that the suggestion for financial hedging for natural gas procurement would expose customers to additional costs and risks. Cos. Exh. CMS-R at 2. Additionally, according to the Companies, the suggestion to reduce coal burn volatility fails to recognize the limited control the Companies have over their coal burn within the PJM dispatch stack. Cos. Exh. JCD-R at 3; Commission Request post-hearing Exh. 2.

The Commission encourages the Companies to continue to find ways to reduce fuel costs for the benefit of the Companies and their ratepayers. At this time, the Commission will decline to require the Companies to implement Ms. Medine's suggestions. The Commission, however, remains concerned regarding the fuel expenses for the Companies and addresses future ENEC costs in this Order.

In response to Commission questions regarding the low capacity utilization of the APCo and WPCo generation plants APCO filed a post hearing exhibit (Post Hearing Commission Request Exhibit or Request Exhibit). The exhibit showed that based on the maximum installed capacity of the West Virginia plants as reported on the Annual Reports of APCo and WPCo, the Companies projected capacity factors of 49.6 percent, 57.3 percent and 34.7 percent for Amos, Mountaineer and Mitchell, respectively. The Companies projected fuel costs of the three plants at $20.31, $18.61 and $22.23 per megawatt hour. Adding the cost of consumables and allowances to the projected fuel costs, the cost to produce power at the three plants is $22.30, $20.41 and $22.23 per megawatt hour. If the consumables and allowance costs are directly variable with production, the data indicates that increasing the capacity factor at the West Virginia power plants would increase aggregate production costs by $22.30, $20.41 and $22.23 per additional megawatt hour generated.[1]

APCo's projected ENEC costs include significant amounts of purchased power which could be prudent if it is clear that purchased power costs will be less expensive when compared to generation at the West Virginia power plants. The projected purchased power for APCo's ENEC, however, includes 8,488,000 megawatt hours of purchased power from unspecified sources at an all-in cost of $262,132,000, or $30.88 per megawatt hour.[2] Purchased wind generated power in the APCo projections is 1,332,000 megawatt hours at a cost of $85,819,000, or $64.43 per megawatt hour. Purchased solar power in APCO's projections is 36,000 megawatt hours at a cost of $1,303,000, or $36.19 per megawatt hour. Total purchased power in APCo's projections equal 9,856,000 megawatt hours at a cost of $349,254,000, or $35.44 per megawatt hour.

We are faced with projected ENEC costs that include utilization of West Virginia power plants at capacity factors of 49.6 percent, 57.3 percent and 34.7 percent for Amos, Mountaineer and Mitchell, respectively. At the same time, projected variable costs for those plants, as described above, are considerably lower than projected purchased power costs. We understand that there may be a variety of factors that will affect generation and purchased power on a day to day basis. We also understand that declining sales volumes and a soft energy market may lead to reduced generation due to reduced wholesale system sales. We are concerned, however, that APCo may not be maximizing the

[1] The Post Hearing Commission Request Exhibit also shows fuel handling costs based on APCo projected volumes will be $1.91 per megawatt hour at Amos, $2.16 per megawatt hour at Mountaineer and $1.55 per megawatt hour at Mitchell. The Commission accepts the projected handling costs at the capacity factors projected by APCo, however, for purposes of estimating additional generation we do not consider the handling costs as varying in direct proportion to volumes generated.

[2] APCo noted that a portion of the projected purchased power costs include demand-related purchases. There is nothing in the record, however, explaining the recipients or contractual obligations regarding the amounts classified as demand-related. For purposes of estimating purchased power offsets if additional generation is achieved at the APCo generation plants, we will calculate reduced purchased power costs at the all-in average cost included in the APCo projections.

utilization of its owned power plants and backing-off purchases in response to reduced wholesale system sales opportunities. We conclude that the public interest is better served by APCo reversing that trend, and focusing on maximizing generation from its owned power plants.

We have determined that capacity factors of 34.7 percent to 57.3 percent should not be the basis for projections in this ENEC case. In more favorable market conditions, which might well occur in the future, we would expect factors in the mid to high 70 percent range. At this time, however, we will use a capacity factor of 69 percent for the Companies' projected ENEC costs. We also will assume that increased generation will result in decreased purchased power costs at the all-in weighted average purchased power cost of $35.44 per megawatt hour.

This decision is for purposes of projecting ENEC costs, subject to true up in a future ENEC proceeding. The Companies' will continue to report actual generation and purchased power costs and actual recoveries in future ENEC cases. Over-recoveries will be subject to return to customers in the form of credits to cost of service and under recoveries will be subject to recovery by the Companies in the form of debits to cost of service in future ENEC cases. The Companies will have the burden of proof to demonstrate that its actual costs are reasonable, prudently incurred and not contrary to the public interest in West Virginia. Net costs that the Commission, after hearing, determines are not reasonable, not prudently incurred or are contrary to the public interest in West Virginia will be subject to disallowance in future ENEC cases.

Based on the adjusted projected ENEC costs as described herein, we reduce the Companies' projected West Virginia jurisdictional ENEC costs by $66,681,445. A summary of our calculations is contained on Appendix A, attached to this Order. We direct the Companies to recalculate their ENEC rates to reflect the modified projected net costs described herein.

To enable the Commission to monitor the Companies' success at increasing generation at its power plants, we will require the Companies to file monthly reports as closed entries in this docket. Each report should show net generation from all APCo and WPCo power plants by month, retail and wholesale energy load by month, and purchased power energy purchases by month by supplier. Each report should also show purchased power demand and energy costs by month by supplier.

Motion for Protective Treatment

The Companies filed a Motion seeking protective treatment for Exhibits JCD-D1, JCD-D3, and MJZ-D1 attached to the direct testimonies of Jeffrey C. Dial and Michael J. Zwick respectively. The exhibits contain (i) data by coal purchase type, price per ton, and total weighted average forecasted price of coal delivered to APCo's generating stations for the forecast period; (ii) information regarding contracts between APCo and certain coal suppliers and the status of those contracts including quantity information; and

(iii) historical period Equivalent Availability Factor data for the Companies' fossil-fueled generating fleet.

The confidential information contained in these exhibits and in the confidential testimony of Emily S. Medine commenting on this confidential information, if disclosed to other purchasers and suppliers of fuel, would have a substantially detrimental effect on the ability of the Companies to negotiate favorable future fuel supply arrangements and/or give its users an opportunity to obtain business advantage over competitors. The information, however, is time sensitive and no longer will be of commercial value after five years. The Commission, therefore, will grant protective treatment for a period of five years for the information filed under seal in this case. The Commission also continues to encourage the Companies to review the information for which they seek confidential treatment and ensure that the information is truly confidential and is not available publicly.

FINDINGS OF FACT

1. The Companies filed a request for an ENEC increase of approximately $73 million. Petition.

2. The Companies agreed with three adjustments recommended by Staff that reduce the ENEC under-recovery balance by $221,318. Staff Exh. GMC-D at 4.

3. The Companies requested an additional increase to cover $2,299,383 in deferred COVID-19 expenses. Petition.

4. Based on the maximum installed capacity of Amos, Mountaineer, and Mitchell, the Companies expect the capacity factors for each of those plants to be 49.6 percent, 57.3 percent, and 34.7 percent respectively.

5. Including the cost of consumables and allowances and the projected fuel costs, the cost to produce power at Amos is $22.30, at Mountaineer is $20.41, and at Mitchell is $22.23 per megawatt hour generated.

CONCLUSIONS OF LAW

1. The Commission should allow the Companies to recover their proposed ENEC under-recovery balance as requested in this case, less $221,318.

2. The Companies should be allowed to collect an additional $2,299,383 in deferred COVID-19 expenses in this case. If cost-savings are realized to offset these expenses, those cost-savings should be addressed in a future rate proceeding.

3. The Companies should not be allowed to change, in this case, the rate development for certain Special Contract Customers, as identified above.

4. Because projected ENEC costs include a utilization of West Virginia power plants at capacity factors of 49.6 percent for Amos, 57.3 percent for Mountaineer, and 34.7 percent for Mitchell and total purchased power is projected to be $35.44 per megawatt hour, the Companies' capacity factor projections are too low. The capacity factor for the three plants should be 69 percent in this case with the potential for an increased capacity factor as described in this Order.

5. Based on the adjusted projected ENEC costs as described in this Order, the Companies' projected West Virginia jurisdictional ENEC is reduced by $66,681,445.

6. The confidential information filed in Cos. Exhs. JCD-D1, JCD-D3, and MJZ-D1 and the confidential testimony of CAD witness Emily S. Medine should remain under seal for a period of five years.

ORDER

IT IS THEREFORE ORDERED that the rates approved in this Order for ENEC under-recovery and COVID-19 pandemic deferred expenses will be in effect for all services rendered on and after September 2, 2021.

IT IS FURTHER ORDERED that Appalachian Power Company and Wheeling Power Company shall file monthly reports as closed entries in this case reporting net generation from all APCo and WPCo power plants by month, retail and wholesale energy load by month, and purchased power energy purchases by month and supplier. The reports shall also report purchased power demand and energy costs by month and supplier.

IT IS FURTHER ORDERED that by September 10, 2021, the Companies shall file an original and six copies of revised tariff sheets to reflect the rates approved in this Order.

IT IS FURTHER ORDERED that the Executive Secretary of the Commission shall maintain under seal and separate and apart from the case file the information filed under seal in Companies exhibits JCD-D1, JCD-D3, and MJZ-D1 and the testimony of Emily S. Medine filed under seal. This information shall remain confidential for a period of five years from the date of this Order.

IT IS FURTHER ORDERED that on entry of this Order, this case shall be removed from the Commission docket of open cases.

IT IS FURTHER ORDERED that the Executive Secretary of the Commission serve a copy of this Order by electronic service on all parties of record who have filed an e-service agreement, and by United States First Class Mail on all parties of record who have not filed an e-service agreement, and on Commission Staff by hand delivery.

A True Copy, Teste,

Connie Graley

Connie Graley, Executive Secretary

SMS/pb
210339cb.doc

Calculation of Adjustments to APCo Projected ENEC Costs

	Amos (Total)	Mountaineer (Total)	Mitchell (WPCo 50% Share)
Maximum capacity MW	2,930	1,320	780
100% Capacity Factor MWHs	25,666,800	11,563,200	6,832,800
69% Capacity Factor MWHs	17,710,092	7,978,608	4,714,632
APCo projected generation MWHs	12,730,386	6,621,342	2,369,000
Additional Generation @ 69% Capacity Factor MWHs	4,979,706	1,357,266	2,345,632
Commission Projected Cost of Incremental Generation per MWH	$ 22.30	$ 20.41	$ 22.23
Increased Incremental Generation Costs	$ 111,047,444	$ 27,701,799	$ 52,143,399
Decreased Purchased Power Costs @ $35.44 per MWH	$ (176,480,781)	$ (48,101,507)	$ (83,129,198)
Net change in ENEC Power Supply Costs	$ (65,433,337)	$ (20,399,708)	$ (30,985,799)
WV Jurisdictional Allocation Factor	0.415873	0.415873	1
Net change in WV Allocated Projected ENEC Cost	$ (27,211,958)	$ (8,483,688)	$ (30,985,799)
Total WV ENEC Adjustment		$ (66,681,445)	