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 13th day of May 2022.

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 requires Commission Staff to undertake a review of the prudence of Appalachian Power Company (APCo) and Wheeling Power Company (WPCo) (jointly the Companies) Expanded Net Energy Cost (ENEC) including fuel purchasing practices, power plant utilization, bidding strategy to sell generation into the PJM energy market, extent to which generation from the Companies' plants failed to clear the PJM energy market during hours of PJM energy prices in excess of the incremental variable costs of self-generation, and reliance on PJM energy relative to self-supply options. The Commission grants recovery for a portion of revised projected ENEC costs subject to future evaluation of recoveries, costs, prudence, reasonableness and determinations of the reasonableness of inclusion of under-recoveries in future ENEC rates.

BACKGROUND

On April 16, 2021, the Companies filed their 2021 petition to initiate the annual review and update of 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 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.

The evidentiary hearing was held on July 30, 2021. The Companies filed post-hearing exhibits as 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.

On September 2, 2021, the Commission issued an Order (Final Order) that approved ENEC rates using a capacity factor of 69 percent for the Companies' West Virginia generation units. The Commission projected generation costs for incremental additional self-generation targeted by the Commission, and an all-in weighted average purchased power cost of $35.44 per megawatt hour as the basis for ENEC rates. The Final Order also required the Companies to file monthly reports providing net generation from all APCo and WPCo power plants by month; retail and wholesale energy load by month; purchased power energy purchases by month and supplier; and purchased power demand and energy costs by month and supplier.

On September 13, 2021, the Companies filed a Petition for Reconsideration or Clarification of the September 2, 2021 Commission Order (Petition). On September 22, 2021, WVEUG and Staff filed responses opposing the Companies' Petition.

On March 2, 2022, the Commission modified its Final Order to reflect an increased ENEC rate and reopened the case for the Companies to explain the significant growth in the reported under-recovery of ENEC costs. The Companies filed their modified tariff on March 4, 2022.

On March 14, 2022, the Companies filed the direct testimony of John J. Scalzo, Jeffrey C. Dial, Clinton M. Stutler, Michael J. Zwick, Shelli Sloan, and Alex E. Vaughan including confidential exhibits filed under seal. Staff, WVEUG, and CAD filed comments or testimony in response to the Companies' filing. March 21, 2022 Filings.

The Commission held the evidentiary hearing on the reopened proceeding on March 23, 2022. On March 30 and April 5, 2022, the Companies filed requested post-hearing exhibits.

On April 6, 2022, the Companies, CAD, WVEUG, SWVA, filed comments on reopening.

DISCUSSION

ENEC Under-Recovery

In originally creating the ENEC specialized and limited rate proceeding, the Commission contemplated an annual filing to enable the Companies to adjust rates for fuel related generation costs and certain purchased power and transmission related costs to avoid filing a full base rate case to reflect changes in those cost components. The Commission authorized the development of ENEC rates based on projections of future ENEC cost elements. An important element of the ENEC procedure was an over or under-recovery mechanism whereby companies using the ENEC procedure would defer costs that exceeded or were less than their ENEC revenues and request recovery of under-recoveries or rate crediting of over-recoveries (true-up mechanism). This true-up mechanism, however, is subject to Commission review of the incurred costs and a determination that the costs resulted from prudent actions on the part of the utility and were reasonable. Absent such a finding, there was no guarantee that under-recoveries would be passed on to customers.

In September, 2021, due to concerns over increasing reported under-recoveries of ENEC costs and further concerns over purchases of expensive power at costs that exceeded self-generation costs the Commission required the Companies to file monthly reports showing energy costs as well as net generation and other energy related information. Commission Order, Sept. 2, 2021. In the November 2021 report, filed on January 21, 2022, the Companies reported large actual and projected under-recoveries of ENEC costs. At that time, the actual under-recovery balance was reported to have grown to $176.1 million as of November 30, 2021. The Commission determined that it should review these reported high energy costs and projections now, rather than allowing the under-recovery to grow until the fall of 2022, when new ENEC rates would normally go into effect. Therefore, the Commission reopened the case and held a second evidentiary hearing to address the excessive under-recovery.

The Companies recommended that the Commission increase ENEC rates to produce additional revenues of $155.2 million, a 9.7 percent increase, affective May 1, 2022. Part of the reason for the significant increase proposed by the Companies was their calculations of continuing and growing ENEC cost under-recoveries. The February 28, 2022 ENEC under-recovery balance as calculated by the Companies had grown to $216.1 million. Without regard to the additional accumulated under-recoveries above those built into the rates approved by the Commission in September, the Companies projected a need for an annual increase of $93 million just to recover their projected annual ENEC costs. Cos. Exh. on Reopening JJS-RO at 8.

The Commission is concerned with the high under-recovery amounts and will continue to review the 2021-22 recovery period in Case No. 22-0393-E-ENEC. We are also concerned that the Companies have been over-relying on PJM energy market purchases in lieu of planning for maximum self-generation through utilization of the capacity they own, and which customers are paying for, at the John Amos, Mountaineer and Mitchell power plants. The Companies claim that they plan on running their plants when it is economical to do so. However, for a variety of reasons including fuel shortages they did not do that at the worst possible time as the PJM energy market prices grew to unprecedented levels beginning in the fall of 2021 and continued at unprecedented levels through the winter of 2021/2022. The Companies claim that when the PJM market prices exploded, they attempted to obtain more fuel for their plant, but to no avail. However, part of the fuel problem faced by the companies was the result of their decision to allow fuel inventories to decline to levels which were unreasonably low.

It is clear that reliance on the PJM energy markets is producing unreasonable cost levels and ENEC under-recoveries that the Companies now ask West Virginia customers to pay. The Commission recognized the excessive cost of relying on the PJM energy market in September 2021 when we ordered the Companies to increase self-generation in lieu of the PJM market and high cost purchased power contracts. If the Companies had been able to increase self-generation and foregone reliance on PJM energy, then the recent spate of under-recoveries would have been greatly reduced or eliminated. Instead, we now learn that utilization of their power plants was limited by unreasonably low fuel supplies and an inability to acquire fuel supplies to accommodate the maximum possible capacity utilization of their power plants.

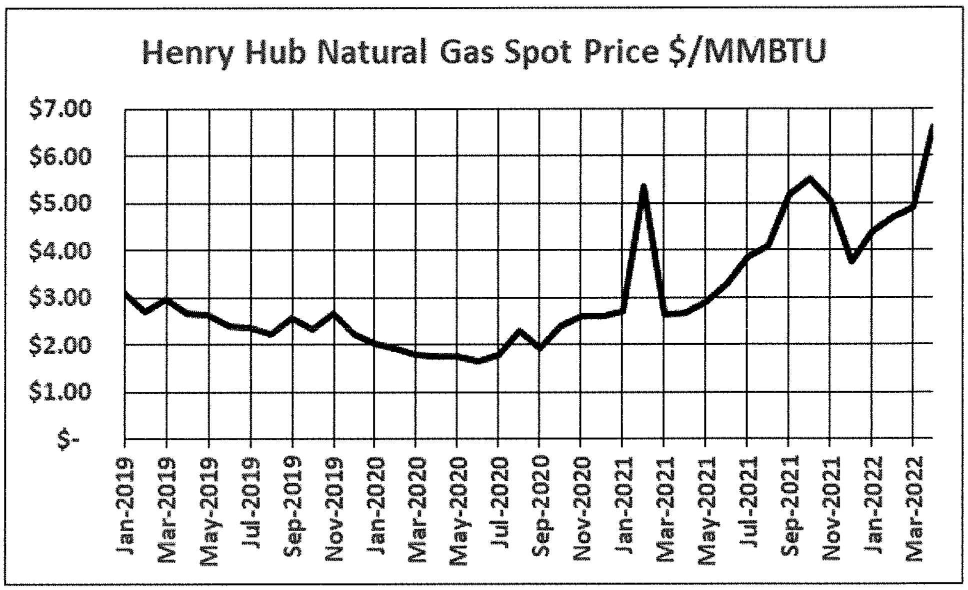
We were not told by the Companies at the initial stage of this proceeding that they were scraping the bottom of their coal inventory which would make it difficult for them to use their power plants at maximum levels no matter how much could be saved by self-generation. It is clear that the Companies' fuel supply planning and overreliance on market purchases are self-inflicted wounds. However, the Commission is not prepared at this time to determine how much, if any, of the excessive ENEC costs should be disallowed due to imprudence on the part of the companies or deferred for consideration of future, rather than current, recovery due to the unreasonable levels of the purchased power costs. We require more information to determine whether the self-inflicted under-recovery wounds were the result of imprudent decisions. For that reason, we will defer any consideration of the reported under-recoveries for rate making purposes until a more complete record is developed in Case No. 22-0393-E-ENEC, the current ENEC case.

Turning to the projected costs as presented by the Companies, we face a similar problem. All of the projected costs may be allowable for ratemaking, or a significant portion may be subject to disallowance, depending on our determination of the prudence of the Companies' planning and reliance on market purchases. However, we find that prudence dictates that we authorize an increase to cover higher ENEC costs than are built into present ENEC rates. We continue to direct the Companies to plan on self-generation rather than reliance on the PJM markets. It is well known that natural gas prices set the

PJM energy market. With natural gas futures continuing to hold steady or increase at levels that have not been seen for years, the PJM market price is likely going to exceed the cost of self-generation by the Companies, even at increased coal prices.

It is not clear to us how the Companies were not more concerned in late 2020 and 2021 that rising gas prices and other market modifications that have been driven by PJM policy changes in recent years would make the benefits of low PJM market prices a distant memory. Instead of allowing coal inventories to decline precipitously, the Companies should have been doing everything possible to use their plants more and increase fuel inventories at the same time.

The following chart depicts the trend of spot natural gas prices at Henry Hub from January 2019 to the present.



Perhaps the Companies were lulled into a false expectation of continuing low PJM market prices by the downward trend in gas prices in 2019 and the extremely low levels in the first half of 2020. But by mid-2020 it was clear that natural gas prices in the $2.00 per MMBTU range would soon be a distant memory.

Strategy for bidding into the PJM energy market is a critical element of prudent use of self-generation capabilities. Self-generation may not be the most economical option during parts of a day, but could become very valuable during other parts of the same day. Base load coal plants are not easily cycled from no load to maximum load, whereas PJM market prices can vary hourly. Selling into a soft PJM market price for a number of hours in order to have plants up and running to take advantage of peak pricing hours is how we expect the Companies to operate. When it became apparent that rising gas prices were going to lead to more and more hours when PJM market prices would exceed the cost of self-generation, the Companies should have been more aggressive both in building fuel supply inventory and bidding to maximize their generation plant utilization. We are not satisfied with the Companies saving a few pennies during some low-price hours or during an unreasonably low-priced market period in early 2020, but spending many dollars as gas prices drove PJM market prices to very high levels by mid-2021 and into the present and likely into the future.

Both CAD and WVEUG requested that the Commission conduct a prudency review of the energy costs incurred by the Companies. Comments filed March 21, 2022. Normally, a review of whether these costs were prudent would be completed within an ENEC case. Given the large under-recovery balance and the Commission's direction to the Companies to run their coal-fired generation plants at 69 percent capacity, which has not yet been achieved, the Commission will require Commission Staff to conduct a separate prudency review for expenses incurred in the 2020-21 and 2021-22 ENEC years. Because accumulated under-recoveries span successive ENEC true-up periods, we will defer any consideration of under-recoveries until the next ENEC case or later, depending on the timing of receipt of the Staff prudence review and the Companies meeting their burden to demonstrate that their ENEC costs are reasonable and the result of prudent management of their generation assets, fuel supplies and purchased power costs.

We direct our Staff to do an in-depth prudence review of the Companies' policies and procedures for maximizing and maintaining adequate fuel inventory levels, bidding their plants into the PJM market to maximize economical self-generation, recognizing that it may be necessary to sell at a small loss in some hours to capture the net benefits of higher market prices within any twenty-four-hour period. We also require evidence of proper and prudent plant maintenance and availability so that the benefits of self-generation can be realized when the opportunities arise. Until we get a full report and gather further information on the Companies' practices, we cannot find that the under-recoveries that have accumulated should be passed on fully to customers. We will nevertheless set rates at the level proposed by the Companies to recover the ongoing costs going forward subject to a later determination of the reasonableness of those costs.

We will grant an increase to produce $93 million in additional revenue to attempt to prevent future rate shock for customers should the Companies' costs, both actual and projected, be determined to be prudent. The Companies are placed on notice that in adopting those requested rates to cover their updated ENEC cost projections, we are not guaranteeing them recovery of those costs if we later determine that some of those costs are excessive, unreasonable, and not prudently incurred. That decision will be made in the future when we further consider the Companies' planning, operating procedures, and commitment to use self-generation from fuel supplies inventoried in large enough quantities to smooth spikes in energy prices and soften the phase-in of a steady upward movement in their generation fuel prices.

Second and Third Addendum to Motion for Protective Treatment

During the reopening of this case, the Companies filed a second and third addendum to their Motion for Protective Treatment. Filings, Mar. 21, 2022 and Apr. 6, 2022. On March 14, 2022, the Companies filed Cos. Exhs. MJZ-RO1 and SAS-RO7 under seal. Cos. Exh. MJZ-RO1 contained historical period (January 2021 through February 2022) Equivalent Availability Factor data for the Companies' fossil-fuel generating fleet. Cos. Exh. SAS-RO7 contained information regarding the Companies' forecasted generation of electricity by generation unit and the expenses associated therewith. On March 30, 2022, the Companies filed under seal post-hearing exhibits Commission Reopened Requested Exh. Nos. 1 and 2 and Staff Reopened Requested Exh. No. 1. The Companies argued that the requested exhibits contained confidential information regarding the Companies' coal inventories, burn data for their coal-fired power plants in West Virginia, and bids received in response to requests for purchase issued by the Companies in the past four years. The Companies argued that all of this information constituted trade secrets. The Commission is sensitive to the Companies' argument regarding forecasts. However, we note that much fuel inventory and fuel use, and cost information is public information either in Energy Information Administration (EIA) reports or the fuel reports required to be filed by West Virginia statute. We direct the Companies to file redacted exhibits and to leave information that is available in coal reports and EIA data or is otherwise publicly available unredacted. Redacted public exhibits must follow the specifications established by the Commission in prior orders including limiting redactions, leaving the length of redacted material unchanged from the unredacted material, and being marked on the cover and every page as public documents. Redacted public documents must be accompanied by confidential versions properly marked on each page as confidential and with material that is redacted in the public version marked with bold double brackets - **[[ ]]** - as has been directed by the Commission in prior orders.

FINDINGS OF FACT

1. The Companies reported an ENEC under-recovery of $176.1 million as of November 30, 2021. Report, Jan. 21, 2022.

2. The Companies have not achieved 69 percent capacity at their coal-fired generating plants as ordered by the Commission. See generally, Transcript of Mar. 23, 2022 Evidentiary Hearing.

CONCLUSIONS OF LAW

1. Staff should conduct a review of the Companies' ENEC costs as described in this order.

2. The Commission should allow the Companies an additional $93 million in rate recovery to prevent future possible rate shock to the customers.

3. ENEC costs recovered by ENEC rates approved by the Commission will be subject to future review and may be subject to disallowance if the Commission determines that they are unreasonable and the result of imprudent management of generation assets, generation costs and purchased power expenses.

4. The confidential information contained in Cos. Exhs. MJZ-RO1 and SAS-RO7 and Commission Reopened Requested Exh. Nos. 1 and 2 and Staff Reopened Requested Exh. No. 1 should be resubmitted by the Companies, properly redacted as described in this Order.

ORDER

IT IS THEREFORE ORDERED that the rates approved in this Order will be in effect for all services rendered on and after the date of this Order.

IT IS FURTHER ORDERED that Commission Staff shall conduct a review, as further described above, of the Companies' generation plant availability and utilization and ENEC costs. Staff shall file a report of their review, in this case, within ninety days of the date of this Order unless an extension is granted by the Commission.

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 Cos. Exhs. MJZ-RO1 and SAS-RO7 and Commission Reopened Requested Exh. Nos. 1 and 2 and Staff Reopened Requested Exh. No. 1.

IT IS FURTHER ORDERED that within ten days of the date of this Order, the Companies shall file calculations of the new rates necessary to recover additional ENEC costs as described herein and an original and six copies of revised tariff sheets to reflect those rates. Those rates may be implemented for billing purposes without further order of the Commission, subject to further review of the prudence of the underlying costs, the reasonableness of the rates and subject to future modification by the Commission.

IT IS FURTHER ORDERED that the Companies shall refile, within ten days of the date of this Order, the confidential information contained in Cos. Exhs. MJZ-RO1 and SAS-RO7 and Commission Reopened Requested Exh. Nos. 1 and 2 and Staff Reopened Requested Exh. No. 1 properly redacted as described in this Order.

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,

Karen Buckley

Karen Buckley, Executive Secretary

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