

**2014 WVMA  
LEADERSHIP SUMMIT:  
Energy Cost Update – Protecting Your  
Competitiveness in WV**

**June 9, 2014**

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# *SPILMAN THOMAS & BATTLE, PLLC*



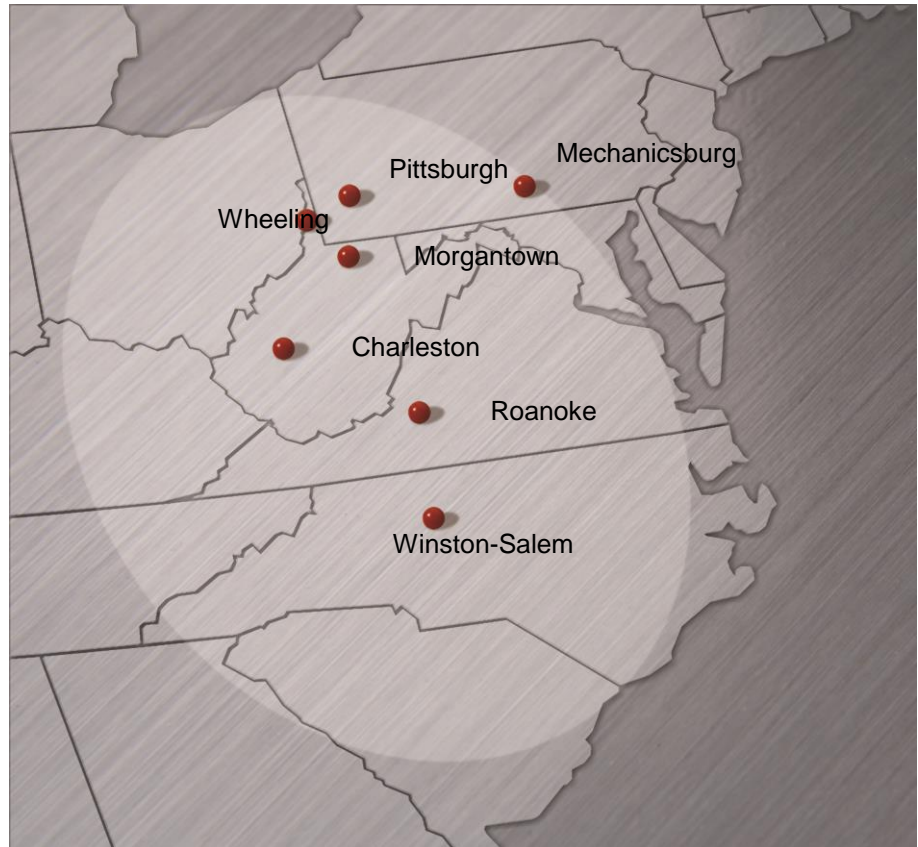
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## *UTILITY LAW GROUP*

- The Utility, Energy & Communications Law Group of Spilman Thomas & Battle provides litigation, regulatory compliance, and counseling in every energy and utility area, including electricity, natural gas, communications, cable television, water, wastewater, and renewable energy.

## *UTILITY LAW GROUP*

- We specialize in representing industrial and commercial clients in every aspect of energy use, from evaluating specific procurement strategies, to service contract review, negotiation, and preparation, as well as intervention and litigation at the appropriate government agency.

# ***DERRICK PRICE WILLIAMSON***

- *Member* of Spilman Thomas & Battle, PLLC
- Co-Chair of the firm's Utility, Energy & Communications Law Group
- Selected as one of *The Best Lawyers in America*® in Energy Law
- Regularly represents clients before state public service/utility commissions and appellate courts
- Counsel for nearly 20 years to the West Virginia Energy Users Group

# ***WEST VIRGINIA ENERGY USERS GROUP ("WVEUG")***

# WVEUG Mission

The West Virginia Energy Users Group ("WVEUG") is a statewide association of large, energy intensive industrial, chemical, manufacturing, and institutional concerns. WVEUG members pool their resources to put as much downward pressure as possible on energy rates, which are a key cost of production in their ever more competitive national and global markets. WVEUG does this principally through active participation in litigated cases and investigations before the Public Service Commission of West Virginia.



# Current Membership

## 2014 Members of WVEUG:

- Air Products and Chemicals, Inc.
- ArcelorMittal USA LLC
- ATK Tactical Propulsion & Controls
- Axiall – Natrium, LLC
- Bayer CropScience
- Bayer MaterialScience, LLC
- Constellium, Inc.
- E. I. du Pont de Nemours and Company
- EQT Gathering, LLC
- Essroc Cement Company
- GrafTech International Holdings, Inc.
- Huntington Alloys Corporation
- Linde LLC
- Novelis Corporation
- Quad/Graphics, Inc.
- Resolute Forest Products
- U.S. Silica Company
- West Virginia Manufacturing
- Weyerhaeuser NR
- Zoetis Products LLC

# **Energy Cost Update – Protecting Your Competitiveness in WV**

# Recent Electric Rate Changes in West Virginia

- American Electric Power
  - Appalachian Power Company (APCo)
  - Wheeling Power Company (WPCo)
    - 50-70% rate increases over the last few years
    - Current average industrial rate is roughly \$55/mWh
- FirstEnergy
  - Monongahela Power Company
  - Potomac Edison Company
    - 50% rate increases in the last few years
    - Current average industrial rate is about \$52/mWh

# Recent Electric Rate Changes in West Virginia

- Key WVEUG Inputs:
  - AEP System:
    - Securitization (\$300 million under-recovery)
    - \$50 MM decrease in 2013 - Stability since 2011
    - Energy cost shift (Amos case)
  - FE System:
    - 0.25 mill/kWh credit for industrials
    - Rate stability over last two years
    - Energy cost shift (Harrison case)

# Current Rate Challenges – AEP

## WPCo Mitchell Acquisition Case

- AEP requests approval for WPCo to acquire 50% interest in Mitchell Plant:
  - Projects \$113 million annual rate impact (could be offset initially)
  - Requests "increase in base rate surcharge rider"
  - Avoids VA State Corporation Commission approval
- AEP seeks 30 September closing with potential rate change at that time

# Current Rate Challenges – AEP

## AEP 2014 "ENEC" Case

- AEP filed with the PSC 2014 ENEC Reconciliation
- 2013 ENEC over-recovery of \$129 million
- Projected \$68 million under-recovery through June 2015
- Traditional ENEC recovery would result in a \$61 million ENEC decrease
- AEP proposes ENEC net revenue increase of \$64.2 million
  - Proposal based on early 2014 under-recovery and anticipated under-recovery over ENEC period
  - Projects \$200 million increase in 2015 otherwise
- New rates could be effective 1 July 2014

# Current Rate Challenges – AEP

## AEP 2014 "Base Rate" Case

- AEP to file base rate case no later than June 30, 2014
- Anticipated issues:
  - Roll-in of Amos Asset Transfer Surcharge costs
  - Mitchell acquisition impact
  - Request for surcharge mechanism for Vegetation Management Program costs
  - Potential \$150-200 MM rate increase (13-15%)
  - New rates effective late May 2015

# Current Rate Challenges – AEP

- Summary of AEP Potential Rate Impacts
  - Potential 6-7% increase July 2014 (ENEC)
  - Potential 1-2% impact Oct. 2014 (Mitchell)
  - Potential 13-15% increase May 2015 (BRC)
  - \$55/mWh → \$68/mWh (@ 20-24%)



# Current Rate Challenges - FE

## FE 2014 Base Rate Case

- Mon Power/PE filed its 2014 base rate case with PSC on April 30, 2014
- Key Components:
  - Initial base rate increase = \$95.7 million, or 9.3%
  - 11% ROE
  - Vegetation Management Surcharge = \$48.4 million
  - Total revenue increase of \$144.1 million, or 14%
  - Class cross-subsidy issues (GRT)

# Current Rate Challenges - FE

## FE 2014 Base Rate Case

- Proposes surcharge mechanism for future environmental compliance (MATS, et al.) in 2015-2017 (approximately \$120-\$150 million )
- Schedule PP/K rate re-design
- New rates effective Feb. 25, 2015

# Current Rate Challenges - FE

## FE 2014 ENEC Case

- To be filed September 1, 2014
  - Unknown rate impact
  - Effective January 1, 2015
- Summary of FE Potential Rate Impacts
  - 7-14% increase February 2015 (@ \$60/mWh)
  - Unknown for surcharge, 2015-2017
  - Unknown for ENEC case, January 2015

# Current Membership

## AEP 2014 Opt-In:

- Air Products and Chemicals, Inc.
- Axiall – Natrium, LLC
- Bayer MaterialScience, LLC
- Constellium, Inc.
- E. I. du Pont de Nemours and Company
- EQT Gathering, LLC
- Huntington Alloys Corporation
- West Virginia Manufacturing
- Wal-Mart/Sam's Club East (Limited Participation)

# Current Membership

## FirstEnergy 2014 Opt-In:

- ArcelorMittal USA LLC
- ATK Tactical Propulsion & Controls
- E. I. du Pont de Nemours and Company
- Essroc Cement Company
- GrafTech International Holdings, Inc.
- Linde LLC
- Novelis Corporation
- Quad/Graphics, Inc.
- Resolute Forest Products
- U.S. Silica Company
- Weyerhaeuser NR
- Zoetis Products, LLC

# Other Challenges

## EPA Proposed Rule

- Electric Cost Increase Driver
- Factors:
  - Final Rule
  - State Implementation
- FE/AEP both have closed multiple coal-fired plants;  
AEP Clinch River retrofit
  - AEP 20% CO<sub>2</sub> reductions since 2005
  - FE 25% CO<sub>2</sub> reductions by 2015
  - Current WV Standard/Proposed: 20%

# Other Challenges

## EPA Proposed Rule

- Impact on PJM Market Will Impact WV
  - PJM pricing impacts region; other state standards matter
  - Increased cost of coal, lower available capacity will increase electric prices passed through to ratepayers
  - Fewer off-system sales
- 7-12% increase – Bloomberg
- WV cannot be disconnected from regional (PJM) price impacts

# Other Challenges

## FERC Demand Response

- D.C. Circuit Court of Appeals Vacates Order 745
- Could gut "demand response" energy and capacity markets
- Real large user value foregone
- Loss of resource could increase prices for capacity
- Will be appealed



# For More Information On WVEUG:

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