Public Service Commission of West Virginia

Management Summary Report

and the

Electric and Gas Utilities Supply-Demand Forecast Reports 2012

Chairman Michael A. Albert
Commissioner Jon W. McKinney
Commissioner Ryan B. Palmer

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Submitted February 2013

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February 13, 2013

To the Members of the 81st Legislature,

It is our pleasure to submit the 2012 Management Summary Report and the Electric and Gas Supply – Demand Forecast Reports for the Public Service Commission of West Virginia.

This report details how the Commission has met its mission of supporting and promoting a utility regulatory and transportation safety environment while balancing the interests of the citizens, the State and the regulated parties.

The year 2012 presented some difficult challenges in the process of regulating utilities including dealing with the aftermath of the June 29 "derecho" storm that left nearly 700,000 West Virginia households without electricity for extended and varying lengths of time, much of it during higher than normal temperatures and the after effects of Hurricane Sandy. The Commission also processed several large utility rate requests, a highly visible request by Century Aluminum for a special rate for electricity and the implementation of the new Electric Reliability Index Targets.

The Commission handles over two thousand of these Formal Cases each year, many of which garner significant public attention. The Staff of the Commission processed nearly 10,000 Informal Cases in 2012, cases in which a utility problem is fixed; a payment plan is arranged; utility service is restored; a billing problem is addressed; and significant water or sewer leaks are discovered and corrected. The Commission's skilled and professional consumer affairs technicians were able to prevent 98% of these Informal Cases from developing into Formal Cases in 2012. The Staff continues to play a vital role to the public safety and economic well-being of all West Virginians. The Staff also participated in the Governor's Day to Serve, raising over $2,000 for the Alzheimer's Association.

The year 2012 again brought national recognition for the Commission's Transportation Enforcement Division when it was recognized as the Highest Achieving Transportation Safety Enforcement Program in the United States for the second consecutive year.

In 2013, the Commission looks forward to the building of a new weigh station on I-64 West near Winfield and renovations to the weigh station on I-64 East through an agreement with WV-DOT.

Our goals for the 2013 Legislative Session include increasing the penalties for gas pipeline safety violations to bring them in line with federal penalties and increasing the number of gas pipeline safety inspectors we have on staff.

We look forward to continuing to work with you to serve the citizens of West Virginia.

Respectfully submitted,

Michael A. Albert
Jon W. McKinney
Ryan B. Palmer

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Roles and Responsibilities of the Public Service Commission of West Virginia

The Public Service Commission of West Virginia (Commission) was established in 1913 by an Act of the State Legislature for the purpose of regulating railroads, toll bridges and ferries. Today, the Commission supervises, regulates and, where appropriate, investigates the rates, service, operations, affiliated transactions and other activities of West Virginia public utilities and many common and contract motor carriers of passengers and property within West Virginia.

The Commission is supported in its work by a current staff of 266 employees, including many professionals, such as lawyers, engineers, and accountants. The professional staff is supported by skilled specialists in the areas of investigation of utility practices, safety issues and transportation operations.

What Does the Public Service Commission Regulate?

1. Electric Utilities;
2. Natural Gas Utilities;
3. Telephone Utilities (land line services);
4. Private and Publicly Owned Water and Sewer Utilities (limited jurisdiction over rates of municipal water and sewer utilities);
5. Public Storm Water Service Districts;
6. Certification of Independent Power Producer (IPP), or Non-Utility Electric Generation (NUG) facilities located in West Virginia. (These facilities could include generation from any energy source, including wind, natural gas, landfill gas or other methane sources, solar, water, coal, renewable fuels and waste fuels);
7. Administration of the Alternative and Renewable Energy Portfolio Act;
8. Allocation of the Energy Intensive Industrial Consumers Revitalization Tax Credits;
9. Gas Pipeline Safety – Natural Gas Interstate Transmission Lines - as an Agent of the Federal Government (DOT) – Natural Gas Intrastate Distribution Lines;
10. Solid Waste Carriers (intrastate);
11. Commercial Solid Waste facilities (landfills);
12. Some Motor Carrier Operations – including economic regulation of intrastate transportation of passengers (taxis and limousines), household goods movers, and towing services not arranged by the owner of a towed vehicle (3^{rd} party tows);
13. Safety, weight and speed-limit enforcement of all commercial motor vehicles (private fleet and common carrier vehicles) operating in West Virginia including motor carriers involved in interstate commerce, with particular emphasis on high accident areas;
14. Regulating transportation of hazardous materials including identification, registration and permitting of commercial motor vehicles transporting such materials in and throughout the state;
15. Coal Resource Transportation System (CRTS);
16. Railroad Safety - Administration and enforcement of federal and state Railroad Safety regulations governing transportation of persons and property by rail;
17. Disbursement of E-911 funds to Counties; including approval of recommendations from the Tower Assistance Fund Committee regarding use of E-911 funds for Cell Tower construction; and,
18. Regulation of Fees and Charges for Setting and Care of Veterans Grave Markers.

Meet the Commission

Chairman Michael A. Albert

Michael A. Albert was appointed to the Commission in February 2007 to fill an unexpired term ending June 30, 2007. He was reappointed to a six-year term expiring June 30, 2013. On July 1, 2007, he was appointed Chairman and continues to serve in that role. He previously served as a Manager and Member in the Business Law Department of Jackson Kelly, PLLC, in Charleston, West Virginia, focusing on public utilities and business and commercial transactions, and was listed in The Best Lawyers in America in two categories (Public Utilities and Corporate) from 1991 until going onto the Commission and in Chambers USA, America's Leading Business Lawyers.

Chairman Albert currently serves as President of the Board of Directors of the Kanawha County Public Library. He has served on the Board and as Chairman of the Board of Directors of the Education Alliance; Junior Achievement of Kanawha County; the National Institute for Chemical Studies; and the WVU Law School Visiting Committee.

Chairman Albert graduated from West Virginia University with a B.S. in Business Administration, majoring in Accounting. Upon graduating, he served as an officer in the United States Navy, including a tour of duty in Vietnam. Following an Honorable Discharge, he attended West Virginia University College of Law where he was the Editor in Chief of the West Virginia Law Review and received his Doctorate of Jurisprudence, with honors. He currently resides in Charleston with his wife, Laura Lee. They have three children, Michael, Jason and Melissa, five grandsons and a granddaughter.

Commissioner Jon W. McKinney

Jon W. McKinney was appointed to the Commission in August 2005. Previously, he had numerous assignments in manufacturing, research and development, and marketing with the Monsanto Company in various locations throughout the United States.

Commissioner McKinney is currently Chairman of the Clean Coal Subcommittee and on the Board of Directors for the National Association of Regulatory Utility Commissioners (NARUC) and the National Coal Council. He also serves on the Advisory Committee for the Electric Power Research Institute (EPRI), and as a member of the Eastern Interconnect Stakeholder Steering Committee. He is Past-President of the Organization of PJM States, Inc. (OPSI) and Past-President of the Mid-Atlantic Conference of Regulatory Utilities Commissioners (MACRUC). He has served on the Board of Directors of Thomas Memorial Hospital, St. Francis Hospital, United Way, Chamber of Commerce, West Virginia Manufacturing Association, West Virginia Roundtable and Chemical Manufacturing Association.

Commissioner McKinney is a graduate of the University of Kentucky, where he earned a Bachelor's Degree in Chemical Engineering, and the University of West Florida where he earned his Master's Degree in Business Administration. He resides in Charleston with his wife, Paula. They have two children, Lisa and Jason, and five grandchildren.

Commissioner Ryan B. Palmer

Ryan B. Palmer was appointed to the Commission in July 2010 to an unexpired term ending June 30, 2015. He previously served as Deputy General Counsel to West Virginia Governor Joe Manchin, III; as Attorney and Advisor to Commissioner Charlotte R. Lane of the United States International Trade Commission; and as Law Clerk to the Honorable W. Craig Broadwater of the United States District Court, Northern District of West Virginia.

Commissioner Palmer is currently a member of the Committee on Telecommunications and the Committee on International Relations for NARUC. He also serves on the Charleston East End Main Street Board of Advisors and has volunteered for Charleston Area Medical Center's Challenged Sports Program, which sponsors a variety of statewide sporting competitions for athletes of all ages with physical disabilities.

Commissioner Palmer is a graduate of West Virginia University, where he earned a Bachelor of Arts Degree in English and a Doctorate of Jurisprudence from the West Virginia University College of Law. His professional certifications include the Fourth Circuit Court of Appeals, the United States District Courts for Northern and Southern West Virginia and the West Virginia State Bar. He also completed the European Union Law summer program through the Tulane University College of Law Summer School Abroad Program at the Tulane Center for European Union Law, University of Amsterdam, in the Netherlands. Born in Morgantown and raised in St. Albans, he and his wife Flavia currently reside in Charleston with their daughter, Lia Cristina.

Organization

The Public Service Commission of West Virginia consists of eleven divisions and the Consumer Advocate Division (CAD). The CAD is financially and departmentally independent from the Commission.

Commission

The Commission regulates those persons, firms or government agencies that provide certain public services including electricity, natural gas, water, sewer, telecommunications, solid waste disposal (landfills), gas pipeline safety, and, to some extent, the transportation of persons and property for hire over the public highways of the State. Motor carriers regulated by the Commission include taxi service, specialized limousine service, solid waste, transportation service, third-party towing and household goods movers. In addition, the Commission sets statewide policies for utility regulation through rulemaking proceedings; recommends statutory changes that affect utilities and the agency; and sets the administrative policies for the agency.

The Office of the Commission includes the three Commissioners; the Quality Assurance, Communications and Government Relations staffs; and support personnel.

Administrative Division

The Administrative Division is comprised of the Budgets and Finance, Human Resources, Information Technology, Facilities Management and Training Sections.

The Budgets and Finance Section prepares budgets, provides fiscal review and control, processes and monitors travel expenses, payables and receivables, oversees all procurement activities, and ensures fixed assets are properly recorded and funded through assessment of public utilities or from grants and other programs. This Section is also responsible for managing the Commission's annually appropriated special revenue budget, federal funds, non-appropriated special revenue funds and the E-911 fees for the State of West Virginia.

The Human Resources Section oversees employee hiring and separations, administers employee benefit programs and handles other personnel related activities. This Section also administers the personnel budget by processing payroll, tax and benefit transactions for Commission employees.

The Information Technology Section is responsible for managing the Commission's technical assets. This includes overseeing the Commission's computer system and service desk needs in conjunction with the State Office of Technology by providing programming, database design, web design, training and support, and other technical assistance.

The Facilities Management Section oversees the maintenance and upkeep of the Commission's buildings, parking garage, vehicles and physical properties.

The Training Section is responsible for coordinating and providing education and skills training for Commission employees and for maintaining training records for the agency. This Section also coordinates training seminars provided by the Commission for utility staffs located throughout the State.

Administrative Law Judges Division

The Administrative Law Judges (ALJ) Division consists primarily of attorneys and support staff who act in an adjudicatory role under the auspices of the Commission. The ALJs issue Recommended Decisions within a time period prescribed by the Commission or set by statute in cases referred to the ALJ Division by the Commission. A Recommended Decision becomes the Commission's Final Order in a case unless modified by the Commission, based on exceptions filed by one of the parties, including the Staff of the Commission, or unless suspended on the Commission's statutory authority.

The ALJ Division works on a variety of cases involving public utilities, motor carrier, cable television, and coal hauling on the Coal Resource Transportation System (CRTS). The ALJs hold hearings and provide Recommended Decisions in cases involving complaints from consumers about utilities or motor carriers; rate change requests; applications for certificates of convenience and necessity to construct new or expand existing utility plants; and petitions for prior consent and approval for numerous utility transactions regulated by the Commission.

The ALJ Division also administers the Commission’s Billing Complaint mediation program. Throughout 2012, mediation was accepted in 27 cases. Mediation was unsuccessful in three cases and voluntarily resolved by the parties before mediation started in one case and resolved without completing mediation in eight cases. The mediation offer was withdrawn in one case. All other mediations were successful. These numbers do not reflect a smaller number of the more complex cases in 2012 which were the subject of mediation outside of the ALJ Division administered mediation program.

Engineering Division

The Engineering Division provides technical recommendations in cases before the Commission relating to rate requests; quality of service or billing disputes; engineering agreements; alternate main line extensions; certificates of convenience and necessity; mergers and acquisitions of utilities; service territory disputes; general investigations of utility operations; and other cases requiring engineering expertise. Engineering staff members provide technical assistance to customers and utility companies; supervise and certify utility meter tests; conduct water pressure tests; investigate voltage levels; investigate taste and odor problems in water; investigate odor and other problems for sewer; provide leak detection services and opinions on utility construction estimates; and undertake other technical tasks and studies as ordered by the Commission.

The Engineering Division provides recommendations on the merits of proposed water and sewer projects to the West Virginia Infrastructure & Jobs Development Council (WVIJDC) and to the Commission; technical comments and assistance on proposed rules and regulations; information and assistance to governmental entities around the State; and, technical training for public service districts board members and staff. The Engineering Division also prepares the annual Gas and Electric Supply-Demand Forecast reports for the West Virginia Legislature.

The Gas Pipeline Safety Section of the Engineering Division is responsible for the application and enforcement of pipeline safety regulations under Chapter 24B of the West Virginia Code and 49 U.S.C Chapter 601, §60105(a), relating to certification with the U.S. Department of Transportation. This is done by overseeing safety compliance by operators of intrastate and interstate pipeline facilities. The Commission inspects interstate facilities and operator compliance with federal regulations pursuant to an annual agreement with the U.S. Pipeline and Hazardous Materials Safety Administration (PHMSA). The findings of those inspections are forwarded to PHMSA who determines any enforcement action to be taken. The Commission has the responsibility to prescribe and enforce safety standards for intrastate pipeline facilities engaging in the transportation of natural gas or hazardous liquids as defined by statute.

Executive Secretary Division

The Executive Secretary Division maintains a complete record of all proceedings, acts, Orders and judgments of the Commission and assures that documents and pleadings in cases are available to the public on the Commission website at www.psc.state.wv.us. The Division receives, processes, and maintains in safe custody all documents, maps and papers filed in formal cases on the Commission's docket, processes all Orders and schedules statewide hearings for the Commission and the ALJ Division.

The Executive Secretary Division receives and maintains all annual reports from regulated utilities and reviews the reports for accuracy and compliance; processes all Freedom of Information Act requests; receives all formal complaints filed with the Commission, either online or in person; issues all tariffs for rate cases; and when necessary, issues subpoenas at the direction of the Commission.

In addition to all Commission Orders, the entire web-docket of the Commission is available online. This database, which is available to any interested person without cost, separately lists each case on the formal docket and contains PDF files of every document filed in each case. Documents filed in formal cases can be accessed, reviewed and copied within one hour of being docketed, scanned and "linked" to the Commission's website. The Executive Secretary Division also processes all electronic case subscriptions through the Commission website, allowing individuals to receive daily electronic notification of all activity, including Commission Orders, in any docketed case. The public hearing schedule and logistical information pertaining to docketed cases is also available online.

Office of the General Counsel

The General Counsel acts as the chief legal advisor to the Commission on cases, policies and other issues facing the Commission. In addition to rendering legal advice to the Commission, the General Counsel represents the Commission in outside litigation and in other State and Federal Agency proceedings such as the Federal Energy Regulatory Commission (FERC) and the Federal Communications Commission (FCC).

The Office of the General Counsel includes law clerks, an employment attorney, and support personnel. The law clerks research regulatory matters involved in cases, prepare summaries of fact and issues used in Commission deliberations and hearings, and draft orders that are reviewed, revised and approved by the Commission. The employment attorney develops policy, tracks court opinions in human resources and employment law, and researches and handles grievances and other employment issues.

Legal Division

The Legal Division provides legal assistance for the Staff in matters before the Commission for adjudication and resolution. The Legal Division represents the Staff of the Commission in proceedings brought before the Commission and Administrative Law Judges and is bound by the rules regarding *ex parte* contact with the Commission and its immediate staff.

The Commission Staff is a formal party to Commission proceedings, and the Legal Division works with the technical and financial analysts to review the positions of all parties to the proceedings and present a recommendation in those proceedings to the Commission for disposition of the matter. The Commission's Legal Division represents the Staff, not individual complainants, in matters before the Commission.

As required, the Legal Division, in coordination with the General Counsel, represents the Commission before State and Federal Courts and other State and Federal agencies including the WVIJDC, FERC and the FCC. The Legal Division is also involved in defending Commission Orders that are appealed to the Supreme Court of Appeals of West

Virginia. In addition to working on formal cases, the Legal Division assists other divisions within the Commission to develop responses to utility customers and utility company inquiries.

Transportation Administration Division

The Transportation Administration Division consists of three operating sections: Motor Carrier, Hazardous Material Registration and Coal Resource Transportation System.

The Motor Carrier Section conducts registration of intrastate and interstate motor carriers and collects intrastate and interstate assessments, registration fees, filing fees for intrastate authority, insurance fees and HazMat (hazardous materials) assessments. Most of the revenue is derived from Unified Carrier Registration (UCR)

The Hazardous Material Registration Section is responsible for registration of hazardous material transported in the State and is responsible for a multi-state project that provides for identification, registration and permitting of commercial motor vehicles carrying these materials in West Virginia.

Weight enforcement responsibility for all commercial motor vehicles on the roads of West Virginia is also the responsibility of the Commission. The Commission enforces the Coal Resource Transportation System (CRTS) for permitting vehicles on certain CRTS designated roads in eighteen counties primarily in the southern West Virginia coal fields. Coal haulers may purchase a permit through the Commission Transportation Administration Division that will allow for a Gross Vehicle Weight of up to 120,000 pounds depending on their truck configuration and the specific routes on which the trucks will be operating. This Section is also responsible for imposing reporting requirements for coal shippers and receivers, especially on the CRTS roads.

Transportation Enforcement Division

The Transportation Enforcement Division consists of four operating sections: Railroad Safety, Safety Enforcement, Special Operations and Logistics.

The Railroad Safety Section is responsible for the administration and enforcement of federal and state safety regulations governing the transportation of persons and property by rail. Freight transportation is expected to double in the next twenty-five years. Amtrak predicts similar growth in rail ridership. Rail safety, through education, engineering and enforcement, has become increasingly important as rising numbers of people and freight moving on trains have resulted in more trains on more tracks going faster than ever before.

Officers in the Safety Enforcement Section perform vehicle safety inspections of motor vehicles operated by interstate and intrastate motor and private carriers, commercial motor vehicles and drivers. This Division performs inspections on a routine basis in the enforcement officers' designated work areas and at regional road check sites throughout the State during the warmer months. During the winter months, the officers inspect vehicles at the terminal facilities of intrastate carriers. Officers enforce compliance with U.S. Department of Transportation safety criteria adopted by the Commission. The Safety Enforcement Section also conducts compliance reviews on interstate and intrastate motor carriers in conjunction with Investigators of the Federal Motor Carrier Safety Administration located in West Virginia.

The Special Operations Section conducts safety audits on West Virginia motor carriers involved in interstate commerce. This Section is also responsible for the Special Patrol Unit charged with addressing high commercial vehicle accident areas within the State of West Virginia.

The Logistics Section is responsible for the procurement and inventory of all supplies and equipment to support the Transportation Enforcement Division. This Section also installs and maintains all electronic equipment used by the Transportation Enforcement Division.

Utilities Division

The Utilities Division, the largest Division at the Commission, consists of accountants, auditors, analysts and economists, and provides accounting, audits, financial, economic and other technical analysis of Commission cases and processes and participates in rate and other filings made by electric, natural gas, telephone, water and wastewater utilities, solid waste carriers, taxis, limousine services, household goods movers, tow operators and commercial solid waste facilities.

This Division is also responsible for reviewing and making recommendations to the Commission regarding formal customer complaints filed against natural gas, electric, telephone, water, and wastewater utilities, regulated motor carriers and commercial solid waste facilities, and informal complaints or requests for assistance dealing with other regulated utility services. The Utilities Division staff also assists customers with quality of service complaints related to cable television and maintains a comparative database of motor carrier costs and rates and conducts both financial and management audits of motor carriers operating within the State.

Water and Wastewater Division

The Water and Wastewater Division provides financial advice and assistance to public service districts, Class III cities, Class IV towns or villages and homeowner associations. Assistance includes matters such as accounting; billing; delinquency collection; security deposits; funding; field operation problems; service extensions; long service lines; leak detection; budgeting; general rule and law interpretation; and conflict negotiations.

The Division also provides mandatory and optional training seminars; makes field visits; and, in collaboration with the Department of Environmental Protection, the Bureau for Public Health and the Bureau of Risk and Insurance Management, issues "The Pipeline", a quarterly newsletter.

In 2012, the Water and Wastewater utility analysts provided technical assistance to water and wastewater utilities in 392 matters. The average completion time for resolving a technical assistance request during 2012 was approximately 1.36 days. The assistance staff is also charged with reviewing, from a financial perspective, the preliminary applications to the WVIJDC. During 2012, the Commission utility analysts conducted approximately 74 WVIJDC reviews. The Division also reviews Annual Reports filed by water and wastewater utilities for quality and accuracy. During 2012, approximately 501 annual reports were reviewed by the Division.

Significant Proceedings

Each year the Commission considers a number of significant or novel proceedings. A few of those matters from 2012 are summarized below.

Electricity

Century Aluminum of West Virginia, Inc.

In March 2012, the West Virginia Legislature passed legislation (H.B. 101) which authorized the Public Service Commission of West Virginia to consider allowing a special rate for electricity for energy intensive industrial consumers under certain circumstances, W. Va. Code § 24-2-1j. The purpose of a special rate for electricity intensive customers was to benefit the state economy, the business climate in the state, residents through job creation, and other electric ratepayers by maintaining benefits of the energy intensive customers on the system. However, the Legislature directed that a special rate was not to impose an unreasonable burden upon electric public utilities or other customers.

In May 2012, Century Aluminum of West Virginia, Inc., (Century) filed a petition with the Commission requesting approval of a special rate for its purchase of electricity from Appalachian Power Company (APCo) in order to restart its aluminum smelter located in Ravenswood, West Virginia (Case No. 12-0613-E-PC). Century proposed a special rate which would change with fluctuations in the London Metal Exchange (LME) price of aluminum. Century's proposal was particularly controversial because it would have placed the risk of revenue shortfalls on other APCo customers. The Commission made APCo a respondent to the filing and granted petitions to intervene to the Commission's Consumer Advocate Division (CAD) and the West Virginia Energy Users Group (WVEUG). The Commission held an evidentiary hearing on July 30, 2012 through August 1, 2012.

On October 4, 2012, the Commission issued an Order that established a Special Rate Mechanism that satisfied the policy goals of the Legislature, addressed the concerns of Century regarding the reopening of its Ravenswood smelter, and balanced the interests of APCo, APCo's present and future customers and the State's economy. The comprehensive, long-term Special Rate Mechanism authorized by the Commission rejected Century's proposal to place the risk of revenue shortfalls on other APCo customers. It placed that risk, instead, on Century, and required Century and its parent company to enter into a corporate guarantee and undertaking with APCo to assure payment of any revenue shortfalls.

Three separate requests for reconsideration and/or clarification were filed in response to the Commission's Order. Century filed a petition for reconsideration, presenting yet two more rate proposals and refusing to provide a Corporate Guarantee and Undertaking for the contributions from other ratepayers. APCo filed a petition for reconsideration asking for clarifications that would guarantee that its other ratepayers would not be responsible for any shortfall in the Tracking Account; asserting that Century's parent must be required to provide a letter of credit in support of the corporate parent guarantee; requesting periodic reviews of the Tracking Account; and requesting carrying charges at a rate higher than its short term debt rate. The CAD and WVEUG also filed a joint request asking the Commission to clarify that Century will remain liable for the annual fixed cost credit of $20 million and that any excess revenues in the Tracking Account would not be used to reduce LME prices until the fixed cost credit was repaid.

On December 14, the Commission issued an Order which denied Century's request for reconsideration for approval of either of the two new alternative special rate plans and pointed out the advantages extended to Century in its October 4th Order, which it emphasized remained in full force and effect. The Commission, however, stressed that Century could still reopen their smelter plant in Ravenswood either by utilizing the special rate mechanism established in the October 4th Order, or by pursuing discussions with the other parties in an attempt to reach an agreement for a more acceptable special rate mechanism. If those discussions fail, Century continues to have the option to file another complaint case with the Commission and present a new proposal. The Commission denied APCo's request stating it was unnecessary to address the elements of the APCo reconsideration because the October 4th Order contemplated that Century and APCo would negotiate mutually agreeable terms of guarantees that would protect both APCo and its ratepayers. This case is now closed.

Appalachian Power Company and Wheeling Power Expanded Net Energy Cost Case

Appalachian Power Company and Wheeling Power Company, dba American Electric Power (collectively the Companies), filed their annual Expanded Net Energy Cost (ENEC) case on March 30, 2012 (Case No. 12-0399-E-PC). In an ENEC case, customer rates are adjusted to true-up recovery of actual fuel costs, purchased power, net purchased transmission costs and construction costs for specific projects for the previous year and to reflect projected changes in the Companies' cost of fuel and purchased power for the year ahead. The ENEC process does not involve the recovery of profit, rate of return on investment, or salaries and wages.

The Companies proposed several alternatives for recovery of a historical ENEC under-recovery balance in the amount of approximately $329.4 million including (1) securitizing the unrecovered balance by issuing bonds, as permitted in recently enacted W. Va. Code §24-2-4f, through a separate proceeding without seeking an ENEC rate increase; (2) phasing-in rate recovery of amount by seeking $174 million through ENEC rates over the course of two consecutive years, effective January 1, 2013; or (3) recovering the under-recovery through an ENEC rate increase of $384 million effective January 1, 2013. The Companies' ENEC filing also included requests to adjust the Construction Surcharge; to add a new surcharge to recover construction costs associated with the Dresden Power Plant; to recover unrecovered costs associated with various surcharges; to recover amounts associated with a rate increase cap on certain industrial customers; and to recover approximately $22.7 million associated with Century Aluminum of West Virginia, Inc. (Century Aluminum).

The Commission granted petitions to intervene filed by the Commission's CAD, Century Aluminum, WVEUG, and Steel of West Virginia, Inc. (SWVA). The Companies, Staff, CAD, and WVEUG reached a settlement on the main issues involved in the ENEC filing and presented their settlement to the Commission in a written Joint Stipulation. The stipulating parties agreed (1) that the ENEC under-recovery balance as of December 31, 2012 was $322,882,617; (2) to a dollar amount and/or recovery mechanism for several disputed cost items; (3) to end an ENEC rate increase cap on certain industrial customers and allow recovery of the under-recovery associated with the cap through securitization or future ENEC rates; (4) to address the recovery of approximately $22.7 million associated with Century Aluminum through a separate pending special rate request filed by Century Aluminum (Case No. 12-0613-E-PC); (5) and to increase the Construction Surcharge by approximately $23.57 million to pay for construction costs associated with the Dresden Plant and pollution control facilities at the Amos Plant while decreasing ENEC rates by a corresponding amount so that net ENEC rates would not change.

SWVA did not join in the settlement and disputed several coal cost items associated with the Companies' inventory management practices. Century did not join in the settlement and asserted that the treatment of approximately $22.7 million associated with its electricity bill should be addressed in the ENEC. The Commission held a hearing on those issues.

The Commission entered an Interim Order on this matter on July 26, 2012, that adopted the Joint Stipulation as a reasonable resolution of issues addressed in the case and maintained the current level of electric rates.

The Commission also decided to address the ultimate disposition of approximately $22.7 million associated with Century through Case No. 12-0613-E-PC, and enter a Final Order in the ENEC upon resolution of the separate Century proceeding. This case is now closed.

<u>FirstEnergy 2011 Expanded Net Energy Cost</u>

On September 1, 2011, Monongahela Power (Mon Power) and the Potomac Edison Company (PE) (collectively FirstEnergy) filed a petition under the ENEC process for rates to become effective January 1, 2012 (Case No. 11-1274-E-P). Because of a settlement in the previous base rate proceeding, FirstEnergy did not file an ENEC case in 2010 and this request was for two years of fuel costs. FirstEnergy requested an annual increase of $31.9 million, or approximately 2.7 percent. Of that amount, $57.3 million reflected an under-recovered balance from the previous two years of fuel costs, which was to be offset by a projected $22.9 million over-recovery for the 2012 rate year and a $2.5 million rate reduction due to the merger with FirstEnergy. CAD, WVEUG and West Virginia Citizens Action Group (WVCAG) were made parties to this proceeding.

On November 30, 2011, the Commission held a hearing, during which all parties except WVCAG presented a joint stipulation for settlement to the Commission. Under the terms of the settlement, FirstEnergy was to receive a $19.5 million increase effective January 1, 2012, and file with the Commission a resource plan that looked at their projected energy needs and the resources available to meet those needs.

On March 9, 2012, FirstEnergy made an informational filing regarding the decision to close three sub-critical coal-fired generation plants. On April 2, 2012, the Commission ordered FirstEnergy not to undertake any activities to shut down the three plants until the Commission had an opportunity to review the filings. On July 13, 2012, the Commission entered an Order that found the closing of the three plants was reasonable.

On August 31, 2012, FirstEnergy filed its Resource Plan that included an asset swap. The Companies made a filing requesting approval of the Asset Swap on November 16, 2012. That request has been designated Case No. 12-1571-E-PC and is pending before the Commission.

FirstEnergy Asset Swap

On November 16, 2012, Monongahela Power Company (Mon Power) and The Potomac Edison Company (PE) (jointly FirstEnergy) filed a joint petition for approval of a generation resource transaction (Case No. 12-1571-E-PC). FirstEnergy has a large deficit in generation capacity to serve their customers, and proposes this transaction to increase Mon Power's capacity by 1,476 megawatts. The centerpiece of the transaction is Mon Power's acquisition of the 79.46% ownership interest in the Harrison Power Station currently held by Allegheny Energy Supply Company, LLC (AE Supply). In exchange, AE Supply will acquire Mon Power's 7.69% interest in the Pleasants Power Station.

The net investment of this transaction for Mon Power will be over $1.1 billion. FirstEnergy requested that a temporary transaction surcharge be implemented at the closing of the transaction and requested that the surcharge remain in place until new base rates are implemented. The Companies want to close this transaction by May 1, 2013, and have requested a decision by April 15, 2013.

The Commission's CAD, WVCAG, WVEUG, the Utility Workers Union of America, AFL-CIO, and its Local 304, and Sierra Club have all been granted the right to intervene in this matter.

This case is currently pending before the Commission.

FirstEnergy 2012 Expanded Net Energy Cost

On August 31, 2011, Monongahela Power Company and Potomac Edison Company (FirstEnergy) filed a petition to initiate the annual review and update to the ENEC rates currently in effect (Case No 12-1238-E-P). The filing covers the projected net energy costs for the calendar year 2013 and the actual net energy costs that were not recovered through June 30, 2012. FirstEnergy requested a decrease in rates of $65,708,846. This amount consists of an under-recovery of $1,597,500 as of June 30, 2012; a projected over-recovery of $62,306,346 for 2013 at the current rates and a $5,000,000 reduction to rates in 2013 because of the merger of Allegheny Energy, Inc. and FirstEnergy. The Companies requested, however, that no change in rates actually go into effect, and that a regulatory liability for the difference between current ENEC rates and the proposed ENEC rates (effective January 1, 2013) be created. The Companies proposed this decrease be used to offset an anticipated rate increase proposed to take effect no later than July 1, 2013, associated with a proposed generation resource transaction. The Companies argued that this approach would avoid multiple rate changes and help stabilize rates. CAD, WVEUG and Sierra Club were all granted intervenor status.

Staff, CAD and WVEUG all agreed rates should be reduced by $65 million dollars but each rejected the Companies' request to hold the rate decrease in abeyance.

In an Order issued on December 17, 2012, the Commission reduced the ENEC rates for FirstEnergy customers by $65,708,846, effective January 1, 2013. The Commission also ordered that, in consideration of the challenging economic circumstances West Virginia rate payers have faced in recent years, the continuing and escalating annual rate increases over the last six years and the onset of the winter heating season, it was in the public interest to lower the electric rates of FirstEnergy as soon as possible. This case is now closed.

Alternative and Renewable Energy Portfolio Standard Compliance Plan Cases

The Commission's Portfolio Standard Rules, which implement State legislation (W. Va. Code §24-2F-6), require electric utilities operating in the State to file with the Commission annual progress reports for their Alternative and Renewable Energy Portfolio Compliance Plans. Progress reports have been filed with the Commission by the following companies:

- Mon Power and PE, both dba Allegheny Power (Case No. 12-0398-E-P)
- APCo and WPCo, both dba AEP (Case No. 12-0405-E-P)
- Harrision Rural Electrification Association, Inc. (Case No. 12-0417-E-P)
- Craig-Botetourt Electric Cooperative (Case No. 12-0420-E-P)

- Black Diamond Power Company (Case No. 12-0429-E-P)
- City of New Martinsville (Case No. 12-0430-E-P)

These cases are pending before the Commission.

Alternative and Renewable Energy Portfolio Certification Cases

In response to the Renewable Portfolio Act, several entities submitted applications to the Commission for the certification of their electric generation facilities as "Qualified Energy Resources" capable of generating "Renewable Energy Resource Credits." Those cases are:

1) Longview Power, LLC

On June 2, 2011, the Commission entered an Order qualifying the Longview Power Plant in Monongalia County, West Virginia as a "Qualified Energy Resource" for one year (Case No. 10-1895-E-P). At the end of that year, the emissions of the plant were to be reviewed to determine whether to continue the qualification of that facility. The Commission's Order denied the request to qualify the facility as advanced supercritical technology until after the study of the actual emissions of the facility.

In General Order 184.25, in an Order dated November 5, 2011, the Commission defined "Advanced Supercritical Technology" for a coal-fired power plant as a plant that emits less carbon dioxide than the most efficient coal-fired power plant in operation in West Virginia as of July 1, 2009. The Commission has established the Harrison Power Station as the benchmark facility, with a reported emission rate of 1958 CO_2 lbs/MWh.

On October 11, 2012, Longview filed a petition to reopen Case No. 10-1895-E-P. Based upon three quarters of a year of operating data, Longview argued that its designation as a "Qualified Energy Resource" should continue and that the data supported the facility's qualification as "Advanced Supercritical Technology." Longview argued that, because the Longview facility emits only 1805 CO_2 lbs/MWh, which is substantially lower than the benchmark facility, the Longview facility should be certified as "Advanced Supercritical Technology." This request is currently pending before the Commission.

2) Appalachian Power Company, dba American Electric Power

On July 19, 2011, Appalachian Power Company (APCo), dba American Electric Power (AEP) filed a petition for certification for thirteen of APCo's electric generation facilities to qualify as "Qualified Energy Resources" (Case No. 11-1034-E-P). The facilities include two supercritical advanced-coal technology plants, one coal-gas fired peaking plant, nine "run of the river" hydro-electric facilities and one pumped storage hydro-electric facility.

On March 8, 2012, the Commission issued a Final Order granting certification for the thirteen electric generation facilities owned by APCo. The Order also approved demand-side management and energy efficiency programs approved in Case No. 10-0261-E-GI to generate credits under the Commission's Rules Governing Alternative and Renewable Energy Portfolio Standard. This case is now closed.

3) Monongahela Power Company, dba Allegheny Power

On August 12, 2011, Monongahela Power Company, dba Allegheny Power (Mon Power) filed a petition requesting that three of the company's electric generation facilities qualify as "Qualified Energy Resources" (Case No. 11-1184-E-P). The three facilities are the Fort Martin Power Station, the Harrison Power Station, and the Pleasants Power Station.

On March 8, 2012, the Commission issued a Final Order granting certification to the three facilities as qualified energy resources. This case is now closed.

On October 31, 2012, Mon Power requested certification of the Morgantown Energy Associates facility in Morgantown, West Virginia as a "Qualified Energy Resource" (Case No. 12-1508-E-P). This case is currently pending before the Commission.

4) Individual Solar Energy Cases

In November 2011, nine petitions were filed for certification of facilities as "Qualified Energy Resources". In each case, the Petitioner owned and operated a solar photovoltaic generating facility located on the same tract of land as the generating facility's metering point and the Petitioner's private residence, and the facility had a nameplate capacity of less than 25 kilowatts (KWs). The Petitioners requested their facilities be certified to produce Renewable Energy Resource Credits.

In March 2012, the Commission issued Orders in these cases requiring Staff to file reports containing additional information needed to process the applications. Staff responded by stating these applicants did not have revenue-quality meters required by the Rules Governing the Alternative and Renewable Energy Portfolio Standard, 150 C.S.R. 34. On August 31, 2012, the Commission issued an Order requiring additional information be filed. The additional information included the meter's design and manufacturer's specifications for energy output data collection; a description of how the energy output data is collected, recorded and delivered for use to GATS; the identification of any electrical codes and standards that apply to and are met by the meter; a statement regarding whether the generator is a net-metered customer; and, if the facility is certified in another PJM state or the District of Columbia, whether or not that certification process required a revenue-quality meter.

On December 7, 2012, the Commission issued an Order granting certification to each facility as a qualified energy resource to generate credits under the Commission Rules.

Three additional petitions were filed for certification of facilities as Qualified Energy Resources in 2012. These cases are currently pending before the Commission.

Appalachian Power Company and Wheeling Power Company, both dba American Electric Power and AEP West Virginia Transmission Company, Inc.

On April 23, 2010, Appalachian Power Company (APCo) and Wheeling Power Company (WPCo), both dba American Electric Power and AEP West Virginia Transmission Company, Inc. (West Virginia Transco) (collectively, Petitioners) filed a petition for approval of arrangements among affiliates related to the operation of a new public service corporation, West Virginia Transco, to plan, construct, own, operate, manage, and control facilities within the State for the transmission of electricity at the wholesale level to its customers, including APCo and WPCo (Case No. 10-0577-E-PC). In addition to creating West Virginia Transco, AEP has created the following additional entities as wholly-owned subsidiaries of AEP: AEP Transmission Company, LLC (AEPTCo); AEP Southwestern Transmission Company, Inc.; AEP Ohio Transmission, Company, Inc.; AEP Appalachian Transmission Company, Inc.; AEP Indiana Michigan Transmission Company, Inc.; AEP Oklahoma Transmission Company, Inc.; AEP Kentucky Transmission Company, Inc., (jointly AEP Transcos).

West Virginia Transco, a West Virginia public service corporation, is a member, of PJM Interconnections, LLC (PJM), the regional transmission organization (RTO) serving West Virginia. West Virginia Transco transmission service will be subject to both Commission and FERC regulation. AEPTCo, a wholly-owned subsidiary of AEP, will own one-hundred percent of the stock of West Virginia Transco.

The Commission's CAD and WVEUG were granted intervenor status in this proceeding. An evidentiary hearing was held in this matter.

On June 14, 2012, the Commission issued an Order expressing its concern that approval of the affiliated agreements filed in this case would result in a WV Transco application for a certificate of convenience and necessity resulting in higher rates to West Virginia ratepayers, and that the alternative—denying the agreements—could result in a WV Transco application resulting in rates that are even higher still. The Commission concluded that a more reasonable approach would be to allow APCo and WPCo to provide services to West Virginia Transco. The Commission, however, was concerned whether APCo and WPCo would be fully and reasonably compensated for services and facility licenses that it would provide to WV Transco pursuant to the Service Agreement, and that all of the potential benefits of using an existing, experienced work force in West Virginia not be captured solely by WV Transco. The Commission stated it would be inclined to approve entering into the Service Agreement if the compensation provision was modified. The Commission directed the Petitioners to respond to the Commission's concerns.

On July 11, 2012, the Petitioners filed a response to the Commission's June 14, 2012 Order. The Petitioners presented an alternative approach to the Commission not considered in the Commission's June 14, 2012 Order.

On September 21, 2012, the Commission issued an Order expressing concerns that the Petitioners' alternative proposal did not adequately protect West Virginia ratepayers. The Commission modified the Petitioners' alternative proposal and directed the Petitioners to submit revised service agreements fully implementing the Commission modifications to the distribution property rental method or indicate to the Commission that they do not wish to implement the Commission modifications to the distribution property rental method. The Commission stated that parties wishing to respond to the Petitioners filing must do so within seven days of the Petitioners' filing.

On October 5, 2012, the Petitioners filed revised Service Agreements in response to the Commission's September 21, 2012 Order.

On December 27, 2012, the Commission issued a Final Order granting its approval of the Service Agreement between the operating companies and West Virginia Transco, subject to certain conditions. This case is now closed.

Beech Ridge II

In 2005, Beech Ridge Energy LLC (Beech Ridge) applied to the Commission for a siting certificate for a 186 MW wind-powered generating facility consisting of 124 wind turbine generators of 1.5 MW each, and an approximately 13.8 miles 138kV transmission line to connect the generating facility to Allegheny Power's Grassy Falls substation near Nettie in Nicholas County. The Commission granted that siting certificate in 2006. Construction began in the summer of 2009 and 67 wind turbine generators representing 100.5 MW were completed and have been placed in service.

Opponents brought a civil action in the United States District Court for the District of Maryland seeking to enjoin the project from construction, alleging that the project would be a danger to the Indiana Bat in violation of Section 9 of the Endangered Species Act (ESA). In 2010, the Court approved a settlement between Beech Ridge and the plaintiffs that prohibited construction beyond 67 wind turbine generators until Beech Ridge had secured an Incidental Take Permit (ITP). Beech Ridge anticipates that a final ITP will be issued in the second quarter of 2013. As part of a settlement and an amended Order in the federal case in 2010 Beech Ridge was allowed to construct 33 additional wind turbine generators provided they were generally on the western side of the original Ridge footprint or on additional land to the west of the original footprint. It was determined that the best way to achieve this construction was to do so through this Project.

On August 24, 2012, Beech Ridge Energy II LLC which is owned by Invenergy Wind Development North America LLC, filed an application for a siting certificate and request for expedited consideration to authorize the construction and operation of a wholesale electric generating facility and other necessary appurtenances in Greenbrier County, West Virginia (Case No. 12-1196-E-CS). Beech Ridge proposed to construct a 53.46 MW wind turbine electric generating facility consisting of up to 33 wind turbines each with a rated capacity of 1.62 MW, and certain ancillary facilities on a tract of land located in Greenbrier County. The Project will deliver energy to an existing substation, and no transmission lines will need to be constructed. Beech Ridge estimates that construction will cost approximately $115 million.

Beech Ridge stated in their application that the Project is not a utility providing service to the public, and there will be no impact to West Virginia ratepayers. Rates charged for electricity sold by the facility will be subject to regulation by the Federal Energy Regulatory Commission (FERC).

This case is currently pending before the Commission.

Appalachian Power Company and Wheeling Power Company Merger

On December 6, 2011, Appalachian Power Company (APCo) and Wheeling Power Company (WPCo) (jointly Companies) filed a petition for an evaluation of a possible merger of WPCo into APCo (Case No. 11-1775-E-P). CAD, WVEUG, SWVA, WV-CAG and Sierra Club have all been granted intervenor status.

The Commission stated in a April 2, 2012 Order that considerable uncertainty existed with respect to a future merger and future power supply options to meet the needs of APCo and WPCo customers and announced that they would hold this proceeding in abeyance for ninety (90) days, as requested by the Companies. The Commission directed that the Companies in future filings address how they plan to remedy the capacity deficiency issue and various supply options and costs either with or without a merger. The Commission further directed that future filings provide relevant information including cost implications regarding updates and modifications to the AEP Pool Agreement; acquisition of additional generation capacity; and other options that may be available to APCo and WPCo to address the generation capacity deficiency and energy requirements with or without a merger.

In a June 26, 2012 Status Report, the Companies noted several developments after the Commission's April 2, 2012 Order.

First, Ohio Power Company (OPCo) filed a Modified Electric Security Plan on March 30, 2012, with the Public Utility Commission of Ohio (PUCO). OPCo provided testimony in the filing regarding the potential transfer of generating units to APCo. On the same date, OPCo made a Corporate Separation Filing to legally separate OPCo's generation assets from its distribution and transmission assets, and to transfer generation assets to a new subsidiary.

Second, the Companies also reported that none of the multiple 2012 FERC filings, which were terminated without prejudice by an AEP Notice of Withdrawal filed on February 28, 2012, have been re-filed. It remained AEP's intention to re-file them once underlying matters were resolved in certain state jurisdictions.

Third, the Companies discussed the May 31, 2012 action of the Public Service Commission of Kentucky to allow Kentucky Power Company (KPCo) to withdraw, without prejudice, its application to, among other things, install a scrubber at Unit 2 of its Big Sandy Plant. In its motion filed on May 30, 2012, KPCo stated that it wished to reevaluate alternatives to meet its environmental obligations at its Big Sandy Plant and that it would file a new application when that evaluation has been completed. Given that APCo and KPCo are contemplated to acquire capacity currently owned by OPCo to meet their own capacity needs, the Companies stated that this development could have implications for KPCo's capacity position.

Fourth, the Companies reported that on June 4, 2012, APCo filed an update to its Integrated Resource Planning Report to the Commonwealth of Virginia State Corporation Commission (SCC), pursuant to a March 5, 2012 Order of the SCC. This filing detailed the Companies' latest position regarding changes to the AEP Interconnection Agreement and generation asset transfers to APCo. The Companies stated that these matters will be affected, and to a large extent determined by the outcome of pending and future proceedings before the PUCO, the FERC, and other regulatory authorities, including this Commission.

The Status Report stated that the Companies do not have all of the necessary information to go forward to address their capacity and energy needs either through merger or as separate corporate entities.

On September 21, 2012, APCo and WPCo filed a status report stating that issues pending before PUCO were likely to be decided soon. The Companies asked that the Commission allow them forty-five days from the date PUCO entered an Order to file an update with the Commission.

In an Order entered on October 29, 2012, the Commission stated that it was aware that on October 17, 2012, in Case No. 12-1126-ELUNC, the PUCO entered an Order authorizing and approving OPCo's modified application for structural corporate separation. Under the corporate separation, the electric distribution utility will divest its generation assets from its noncompetitive electric distribution utility assets by transfer to its separate competitive retail generation subsidiary, AEPGenCo (a subsidiary of American Electric Power), on certain conditions. Furthermore, subsequent to the transfer of the generation assets and liabilities from OPCo to AEPGenCo, AEPGenCo would transfer to APCo the interest in Unit 3 of the John Amos generating plant and 80 percent of the Mitchell generating plant. The Commission directed APCo and WPCo to file a further status report on or by December 3, 2012, advising the Commission of the impact of the October 17, 2012 PUCO Order on this proceeding as well as the status of the capacity and energy supply options under consideration and to indicate whether the Companies are ready to go forward to address their capacity and energy needs, either through merger or as separate corporate entities.

In their December 3, 2012 Status Report, the Companies explained that because key matters were resolved by the PUCO Corporate Separation Order on October 31, 2012, AEP companies have made various filings with FERC to address the following matters: the corporate separation of OPCo generating assets approved in the PUCO Corporate Separation Order (FERC Docket EC13-26-000); the proposed merger of APCo and WPCo, which is the subject of this status report (FERC Docket EC13-27-000); the termination notice of the AEP-East Interconnection Agreement and Interim Allowance Agreement, as well as the approval of the new Power Coordination Agreement among APCo, Indiana Michigan Power Company, and Kentucky Power Company (KPCo) and a Bridge Agreement (FERC Docket ER13-233-000); the transfer of OPCo's interests in the Amos and Mitchell plants for ultimate ownership by APCo and KPCo (FERC Docket EC13-28-000); operating agreements for the Mitchell and Sporn plants (FERC Docket ER13-238-000); and an agreement between OPCo and AEP Generation Resources, Inc. to govern sales of capacity and energy to serve OPCo's customers during OPCo's transition to market (FERC Docket ER13-232-000). The Companies propose to move forward with consideration of the proposed merger of APCo and WPCO and are in the process of finalizing their analyses of data and options regarding the Companies' future capacity and energy needs.

This case is pending before the Commission.

Appalachian Power Company Asset Swap

On December 18, 2012, Appalachian Power Company, dba American Electric Power (APCo) filed a petition for consent and approval for the transfer to APCo of 1,647 MW of generating capacity presently owned by Ohio Power Company, pursuant to W. Va. Code § 24-2-12 and associated agreements (Case No. 12-1655-E-PC). APCo specifically proposes to enter into an arrangement whereby there will be transferred to APCo a two-thirds interest in Unit No. 3 of the John E. Amos plant and one-half interest of the Mitchell plant, totaling 1647 MW of average annual generating capacity presently owned by Ohio Power Company, through a series of near-simultaneous transactions involving a number of affiliates.

This case is pending before the Commission.

Electric Reliability Index Target Cases

Following the General Investigation into electric utilities services during and after the 2010 winter storm, the Commission adopted electric reliability rules as part of the Commission's existing Rules for the Government of Electric Utilities (150 C.S.R. 3). The electric reliability rules, which became effective on August 28, 2011, require all electric utilities to file minimum and optimal targets for Commission approval within one-hundred-twenty days following the effective dates of the reliability rules.

The following electric utilities filed petitions for consent and approval of their proposed minimum and optimal reliability index targets:

- APCo and WPCo, both dba AEP (Case No. 12-0014-E-PC)
- Mon Power and PE, both dba Allegheny Power (Case No. 12-0015-E-PC)
- Craig-Botetourt Electric Company (Case No. 12-0018-E-PC)
- Harrison Rural Electrification Association, Inc. (Case No. 12-0044-E-PC)
- City of New Martinsville (Case No. 12-0067-E-PC)
- City of Philippi (Case No. 12-0072-E-PC)

- Black Diamond Power Cooperative (Case No. 12-0093-E-PC)

On September 21, 2012, the electric utilities, the Staff of the Commission, and the Commission's CAD filed a Joint Stipulation and Agreement for Settlement agreeing to the implementation of certain Minimum and Optimal Reliability Index Targets that are to apply to the utilities' service area and to system wide performance. The parties agreed that if a service area fails to meet one or more of the agreed minimum targets, then the utility shall include in its annual reliability report to the Commission a description of the problem, patterns and trends, a history of the operation and maintenance activities within the service area, and the corrective action(s) the utility is taking to improve reliability in the service area in question. The utilities agreed they would meet the targets that were attached to the settlement agreement beginning in 2014. The agreed upon targets are to be effective from 2014-2018. On or before May 1, 2018, each electric utility is to petition the Commission to modify or maintain the targets established in the agreement.

The Commission adopted the Joint Stipulation and Agreement for Settlement on November 7, 2012. These cases are now closed.

Black Diamond Power Company

On January 12, 2012, Black Diamond Power Company (Black Diamond) made a filing seeking to increase its rates and charges, effective February 19, 2012, by $1,081,310 annually, or approximately 13.07% (Case No. 12-0064-E-42T). The Commission issued an Order on August 10, 2012, in which, among other things, it approved a rate increase that would generate $140,277 in additional revenues annually.

In that Order, the Commission noted that Black Diamond owed APCo, its power supplier, approximately $2.2 million, and established steps for Black Diamond to move forward to correct this situation.

On November 16, 2012, the Commission issued an Order stating that Black Diamond was in violation of the Commission's August 10, 2012 Order because Black Diamond had failed to file monthly reports on the status of paying down its delinquent account balance for purchased power to APCo. The Commission directed Black Diamond to file the required monthly reports on or before November 20, 2012. On November 20, 2012, Black Diamond filed the reports.

In a separate matter, on November 14, 2012, the Commission consolidated Case Nos. 12-1065-E-30B and 12-1327-E-30D into a new case, Case No. 12-1449-E-GI, a general investigation into a review of Black Diamond's purchased power cost. The Commission believed Black Diamond and its customers would benefit from a new combined process that looked at total purchased power costs and recoveries. The Commission envisioned the combined proceeding to be similar to the annual Expanded Net Energy Cost (ENEC) reviews that the Commission conducts for certain electric utilities.

The Commission directed Staff to develop a final rate recommendation consisting of the procedural aspects of future purchased power filings by Black Diamond; and a substantive recommendation regarding a total purchased power rate increment that substitutes for 30B increments, 30D increments, or increments that were embedded in base rates in the last rate case. Staff was to quantify any necessary credits to base rates to assure that all projected purchased power costs (including an amortization of any over- or under-recovery balances) are included in the purchased power rate increment, and that there is no duplication in base rates. Furthermore, the recommended purchased power rate implement was to include any current over- or under-recoveries that are properly chargeable or recoverable pursuant to Commission Rules. This case is pending before the Commission.

Grassy Fork substation and 34.5 kV Yawkey Circuit of Appalachian Power Company

On March 22, 2012, the Commission instituted a general investigation into service reliability issues involving the Grassy Fork substation and 34.5 kV Yawkey Circuit of Appalachian Power Company (APCo) as a result of three complaint cases filed with the Commission over the last two years in which APCo customers alleged that they received unreliable and poor electric service on that circuit. The Commission consolidated the three complaint cases and the general investigation (Case No. 12-0352-E-GI). The Commission directed APCo to file a report within twenty days of its Order that included a proposed work plan and a reasonable timeframe for the implementation and completion of the work plan.

On April 20, 2012, APCo made a filing which explained its ongoing work on the circuit at issue in all of the above cases, indicated that it planned to complete both the Spectral Analysis and Coordination Study by May 1, 2012, and requested that it be given until June 1, 2012, to file a detailed work plan, including a list of proposed equipment repairs and replacements for the circuit. The Commission granted that request.

In its June 1, 2012 Status Report, APCo explained that it had completed the Spectral Analysis of the entire distribution circuit and identified a list of items to be repaired or replaced; that they had two crews working on the repairs and replacements and believed approximately 78% of the problems had been addressed; that they could address the rest of the problems by June 29, 2012; and that they had completed a Coordination Study of the entire circuit and found that several fuses needed to be changed; and that a Viper recloser needed to be added in order to help reduce exposure within the station zone. APCo expected to complete the coordination improvements by August 31, 2012.

On December 21, 2012, the Commission issued a Final Order directing APCo to file a status report if certain work was not completed by January 11, 2013. This case is now closed.

The "Derecho" Summer Storm and Hurricane Sandy

On June 29, 2012, a powerful wind event classified as a Derecho unexpectedly swept through the eastern United States leaving millions of people, including many in West Virginia, without power for extended periods of time. This event occurred during a period of extremely high temperatures that compounded the hardship. Another major weather event, Hurricane Sandy, caused major outages in West Virginia in late October 2012.

On July 20, 2012, the Commission initiated a general investigation regarding the June 29th Derecho storm events and disrupted utility service (Case No. 12-0993-E-T-W-GI). The purpose of the proceeding was to examine utility preparedness, utility response and utility plans for future events. The Commission named several respondents including Appalachian Power Company, Wheeling Power Company, Monongahela Power Company, The Potomac Edison Company, Harrison Rural Electrification Association, Inc., Craig-Botetourt Electric Cooperative, Black Diamond Power Company, City of New Martinsville, City of Philippi, West Virginia American Water Company, Beckley Water Company and Frontier Communications.

On August 20, 2012, the Utilities filed initial reports addressing outage and restoration issues from the June 29, 2012, storm. The Utilities presented initial reports at a public meeting held on October 22, 2012, in Charleston. Public Comment hearings were conducted on November 15, 2012, in Charleston, West Virginia and November 19, 2012, in Clarksburg, West Virginia.

On January 23, 2013, the Commission ordered all electric utility companies operating in West Virginia to file, within six months, a petition to propose a comprehensive vegetation trimming program to maintain all rights-of-way over a proposed period of time. The proposals must cover all distribution and transmission lines on an "end-to-end, time-based cycle," based on the utility's specific operational and reliability targets; must indicate how the program will be coordinated with other entities that have facilities in the rights-of-way or attached to the utility poles, and that may also have an obligation to maintain the same rights-of way; and must include a proposed method for rate recovery of the increased costs that will be associated with the programs. This case is now closed.

Natural Gas

Natural Gas-Purchased Gas Cost Cases

Under the Commission's Rule 30C procedure, natural gas utilities can file annually to adjust the purchased gas component of their rates. This purchased gas adjustment procedure (PGA) allows the utility to recover the costs it pays suppliers for the gas it delivers to gas customers. The PGA cost of purchased gas typically comprises two thirds (2/3) of a customer's winter heating bill. The prices that a natural gas utility pays its suppliers for gas are not regulated by either the Commission or any federal government agency, but are determined by a national market. Over the years, the market-driven price has been extremely volatile and influenced by any number of external factors.

Following a review of rate filings by natural gas utilities, the Commission ordered that all residential customer gas rates to recover the cost of purchased gas across the state should be lower this heating season than last winter.

Interim Purchase Gas Cost Rates Winter 2012-2013

Company and Case No.	2011 PGA $ per Mcf	2012 PGA $ per Mcf	$ Change	% Change
A.V. Company 12-1293-G-30C	$1.16	$0.33	Decrease of $0.83	Decrease of 71.6%
Blacksville Oil & Gas 12-1060-G-30C	$5.289	$3.979	Decrease of $1.31	Decrease of 24.77%
Bluefield Gas Co. 12-1082-G-30C	$6.1257	$4.9866	Decrease of $1.1391	Decrease of 18.6%
Canaan Valley Gas 12-1077-G-30C	$4.448	$3.501	Decrease of $0.947	Decrease of 21.3%
Consumers Gas 12-1076-G-30C	$5.178	$4.00	Decrease of $1.178	Decrease of 22.75%
Equitable Gas Co. 12-1079-G-30C	$4.90	$3.24	Decrease of $1.66	Decrease of 33.88%
Hope Gas, Inc. * 12-1070-G-30C	$6.25	$5.478	Decrease of $0.772	Decrease of 12.35%
Lumberport-Shinnston 12-1058-G-30C	$5.739	$5.627	Decrease of $0.112	Decrease of 1.95%
Mountaineer Gas * 12-1083-G-30C	$6.108	$4.913	Decrease of $1.195	Decrease of 19.56%
Southern Public Service District 12-1059-G-30C	$5.613	$3.886	Decrease of $1.727	Decrease of 30.76%
Standard Gas Company 12-1064-G-30C	$6.68	$6.28	Decrease of $0.40	Decrease of 5.99%
Tawney Gas Services, Inc. 12-1001-G-30C	$8.444	$7.213	Decrease of $1.231	Decrease of 14.58%
Union Oil & Gas 12-1075-G-30C	$5.434	$4.24	Decrease of $1.194	Decrease of 21.97%

*Rate information is for residential and commercial. Rate schedules for other customers, such as large industrial or sale for resale, may have different rates and/or charges.

Bluefield Gas Company

On March 24, 2011, the Bluefield Gas Company requested to increase its base rate revenues by $420,917.03 or 6.89% (Case No. 11-0410-G-42T). The Commission’s CAD was granted intervenor status. Both CAD and Commission Staff recommended that Bluefield Gas' rates be decreased.

A hearing was held by an Administrative Law Judge in Bluefield, West Virginia. After review of all the evidence, the Administrative Law Judge entered a Recommended Decision denying Bluefield Gas' request for a rate increase. The Company filed exceptions to the ALJ's Order. On January 17, 2012, the Commission granted the Company's exceptions and granted a $73,022 increase in revenues.

On April 5, 2012, Bluefield Gas Company requested to increase its base rates and charges by approximately $357,876, which represents an increase in base rates of 17.14% and a 6.44% increase in total revenue (Case No. 12-0427-G-42T).

An Administrative Law Judge conducted a hearing in this matter. After review of all the evidence, the ALJ entered a Recommended Decision granting Bluefield Gas an $81,021 increase in annual revenue. This case is currently pending before the Commission.

Mountaineer Gas Company

On November 4, 2011, Mountaineer Gas Company requested to increase its base rates and charges by $12.187 million or approximately 4.9 percent annually (Case No. 11-1627-G-42T).

The Commission held public comment hearings in Charleston, Huntington, Wheeling and Beckley, and an evidentiary hearing in Charleston. At the evidentiary hearing, Mountaineer revised its presentation and noted it was seeking an $8.691 million net revenue increase, after providing a $1.836 million decrease to customers in the service area formerly served by East Resources, which was equivalent to a revenue increase of $10.527 million to customers other than those in the East Resources area.

The Commission issued an Order on October 31, 2012, recommending an increase of $6.265 million or 2.54% percent annually. The Commission's recommended rates were to be effective on and after November 1, 2012. Mountaineer filed a limited Petition for Reconsideration addressing the issue of Accumulated Deferred Income Taxes on November 21, 2012. The Commission is currently reviewing the Company's reconsideration request.

Water and Wastewater

West Virginia-American Water Company Rate Cases

On December 14, 2012, WVAWC filed a Rule 42T application to increase its water rates and charges for its 171,000 customers in West Virginia (Case No. 12-1649-W-42T). WVAWC is seeking an additional $24,073,446 in annual revenue, or an approximate 19.7% increase over current rates. WVAWC proposes to implement this rate increase across-the-board to all customer classes except for public fire service, whose rate has been frozen consistent with prior Commission Orders. This Case is currently pending before the Commission.

On the same day, WVAWC also filed a Rule 42T application to increase sewer rates and charges for its approximately 1,100 customers in Fayette County (Case No. 12-1648-S-42T). On December 21, 2012, WVAWC filed a correction to the deferred taxes component of the rate base calculated which revised the total amount of additional revenue WVAWC is seeking. Based on the revised filing, WVAWC is seeking an additional $476,000 in annual revenue, or an approximate 63% increase over current rates. WVAWC is proposing to implement this increase across-the-board to all customer classes. This case is also pending before the Commission.

West Virginia-American Water Company 20% Discount Program

On July 19, 2012, WVAWC petitioned to enact a voluntary special reduced rate for qualifying residential water service customers of the Company under the provisions of W. Va. Code § 24-2A-5 (Case No. 12-0987-W-PC). As part of its petition, WVAWC sought, among other things, consent and approval of a proposed Special Reduced Rate Residential Service tariff (SRRRS).

The Commission's CAD petitioned to intervene in this proceeding. Following an exchange of filings between WVAWC, Staff and CAD, the parties reached an agreement on the terms and conditions under which WVAWC would enact and provide services under the SRRRS tariff. The parties have recommended that the Commission adopt the SRRRS tariff as modified by the parties while this case was being processed. By an order entered on November 14, 2012, the Commission adopted the SRRRS tariff and program as recommended by the parties. This case is now closed. Commission Staff is currently meeting with WVAWC and the Department of Health and Human Resources to discuss the implementation of that program.

West Virginia-American Water Company vs. Utility Workers Union of America, AFL-CIO

The Utility Workers Union of America, AFL-CIO, on behalf of UWUA System Local No. 537 (UWUA) filed a complaint case against WVAWC on May 25, 2011, shortly after the WVAWC's general rate case Order became final (Case No. 11-0740-W-GI). The UWUA alleged that WVAWC improperly reduced its staff by thirty-one employees, thereby jeopardizing the ability of WVAWC to provide safe and adequate water service to its customers.

On May 31, 2011, the Commission issued an Order enjoining WVAWC from reducing staffing levels through involuntary termination unless the employees had already been terminated. After directing WVAWC to provide additional information regarding its recent staffing reduction, the Commission issued an Order on June 9, 2011, converting the complaint into a general investigation into the staff reductions, its basis, including changes in capital and maintenance spending, and the likely effect on service quality.

The Commission's CAD and the Laborers International Union of North America, AFL-CIO, Local 1353 were granted intervenor status in this case. An evidentiary hearing was held on July 26-27, 2011, in this matter.

On October 13, 2011, the Commission issued an Order which dissolved the May 31, 2011 Interim Relief Order enjoining WVAWC from reducing staff levels involuntarily except for the proposed layoffs involving the Kanawha Valley and Huntington District valve crews; the eliminated position in Webster Springs; the two eliminated meter reader positions in the Kanawha Valley District; and the two eliminated meter reader/field service representative positions in the Huntington District. WVAWC was directed to maintain these positions through the conclusion of the next general rate proceeding or until further Order of the Commission. WVAWC was further directed to maintain its existing valve program and to maintain a minimum complement of 289 positions. Additionally, the Commission directed WVAWC to maintain capital spending at a level that would demonstrate substantial progress toward reducing its distribution infrastructure replacement cycle. The Commission also directed WVAWC to collect certain statistical information and report it on a quarterly basis, and the Commission ruled on a pending request for protective treatment.

On October 31, 2011, WVAWC filed a Limited Petition for Reconsideration of the Commission's October 13, 2011 Order. Specifically, WVAWC requested that the Commission reconsider its determination that WVAWC must maintain a minimum staffing of 289 positions; that WVAWC's proposed termination of one employee at the Webster Springs District constitutes an unreasonable practice; and that certain information not be accorded permanent protective treatment as requested by WVAWC.

On February 2, 2012, the Commission issued an Order which granted, in part, the request for reconsideration and modified its October 31, 2011 Order. The Commission concluded it was reasonable to modify the October 31, 2011 Order to require WVAWC to report and justify any reductions in staffing and to place WVAWC on notice that it should not proceed with reductions in budgeted positions unless it can attest to a continuation of service quality to customers, including the quality and availability of water supply and responsiveness to customers. The Commission concluded that WVAWC's revised staffing plan for the Webster Springs District was a reasonable alternative to maintaining an additional full-time employee at Webster Springs that allows for a timely response in an emergency. As directed by the Commission's orders, WVAWC has been filing quarterly monitoring reports containing certain statistical and financial information. This case is now closed.

Regional Development Authority of Charleston-Kanawha County, West Virginia Metropolitan Region, *et al.* v. West Virginia-American Water Company

On October 3, 2011, the Regional Development Authority of Charleston-Kanawha County, West Virginia Metropolitan Region, Lewis County Economic Development Authority, Oakvale Road Public Service District, Lashmeet Public Service District, New Haven Public Service District, Putnam County Building Commission, Jumping Branch-Nimitz Public Service District, and Webster County Economic Development Authority (jointly the Complainants) filed a complaint against WVAWC (Case No. 11-1451-W-C). The Complainants had each received what they call a "decommitment" letter from WVAWC wherein WVAWC has indicated it would no longer financially support public/private investments; it may not provide operation and maintenance services for future extensions; and it may serve new projects through a master meter using WVAWC's wholesale tariff rates or it will operate and maintain such projects subject to a detailed project cost evaluation. The Complainants expressed concern about WVAWC's plans to discontinue direct investment in, and possibly discontinue operation and maintenance services for future expansions of, their systems. The Complainants requested expedited consideration of their complaint.

The Commission issued an Order on May 24, 2012, accepting a settlement between the parties that resolved a portion of the complaint and established a framework for further negotiations and stayed the proceedings through 2012. Under the settlement agreement, the parties agreed to immediately pursue seven pending extension projects while continuing to work to resolve a further group of projects. The Commission stated that its acceptance of the May 23, 2012 settlement did not bind the Commission with regard to any final decisions that may need to be made in the proceeding. The Commission directed the parties to file status reports in the case by October 1, 2012 and January 2, 2013. This case is currently pending before the Commission.

West Virginia-American Water Company Usage Data Agreements

On March 23, 2012, West Virginia-American Water Company (WVAWC) filed petitions for consent and approval to enter into Usage Data Agreements with twenty sewer utilities: Elk Valley Public Service District, Town of Ansted, Boone County Public Service District, Green Acres Utilities, Culloden Public Service District, City of Huntington Sanitary Board, City of Hinton Sanitary Board, City of Montgomery, Sissonville Public Service District, Town of Chesapeake Sanitary Board, Chestnut Point Property Owners, Big Bend Sewer Association, Inc., City of Bluefield Sanitary Board, Village of Barboursville, Alva Vance, dba Advanced Environmental, Town of Marmet Sanitary Board, Linmont Sanitation System, Inc., City of Smithers, Town of Belle, and Spring Valley Public Service District (collectively Sewer Utilities). At the time the Usage Data Agreements were filed, WVAWC provided billing and collecting services to each of the Sewer Utilities.

On July 12, 2012, the Commission initiated the General Investigation (Case No. 12-0946-W-GI) into the proposed termination of the billing agreements. In September, WVAWC notified the Sewer Utilities that it was terminating the billing agreements effective October 31, 2012. On September 12, 2012, the Commission ordered mediation between the parties. On November 19, 2012, WVAWC, Staff and a majority of the sewer utilities filed a Joint Stipulation, which if adopted by the Commission, would resolve the issues raised in the General Investigation. On November 30, 2012, the Commission issued an Order adopting the Joint Stipulation and dismissing the General Investigation case and related Usage Data Agreement cases. This case is now resolved and closed.

Pocahontas County Public Service District

On August 16, 2010, several landowners in the service territory of the Pocahontas County Public Service District (the District) filed a Petition and Complaint asserting the District had failed to timely complete the construction of a new regional wastewater treatment facility previously approved by the Commission, and that failure imperiled project financing and exposed the District to potential fines and other adverse consequences (Case No. 10-1279-PSD-C). The Petitioners requested the Commission order the District to build the regional facility and/or appoint a receiver who would build the facility.

Intervenors in this case include the Snowshoe Property Owners Council and the Pocahontas County Commission.

On November 22, 2010, the Commission conducted a Status Hearing on this matter. At that hearing, the District stated it no longer desired to construct the project that had been approved and that it was in the process of obtaining a new engineering firm to design a new project. On December 9, 2010, the Commission ordered the District to file a petition for approval of the agreement it had entered into with the new engineering firm. The Commission scheduled a hearing for February 9, 2011.

On January 10, 2011, the District filed a petition for consent and approval of an engineering agreement between the District and Waste Water Management, Inc. (Case No. 11-0028-PSD-PC). By Order dated February 3, 2011, the Commission consolidated the two cases and set a procedural schedule.

The Commission conducted an evidentiary hearing in this matter from April 11-13, 2011. On May 10, 2011, the Commission issued an Order granting the District permission to enter into the engineering agreement contingent upon the West Virginia Department of Environmental Protection's (DEP) approval. The Commission's approval was limited to the Phase I, Preliminary Engineering Report and Preliminary Design, which was to be completed and filed with the Commission within six months.

On November 9, 2011, the District filed Phase I, Preliminary Engineering Report and Preliminary Design. On January 12, 2012, the Commission gave the District 45 days to fix deficiencies in the Design. On March 19, 2012, the District filed an updated Facilities Plan. On May 1, 2012, Commission Staff made a filing that noted significant progress had been made, including the District Board adopting a two-plant system, but additional work needed to be done including getting the approval of the DEP for the proposed plan. On May 25, 2012, the Commission gave the District until July 2, 2012, to resolve its outstanding issues. On July 13, 2012, the Commission conducted a Status Conference on this matter. On August 22, 2012, the Commission entered an Order directing the District to adopt a plan to build one centralized sewer treatment plant. On October 22, 2012, the District filed an updated Facilities Plan that included only one centralized plant.

The District's application for funding is pending before the WVIJDC. This case is currently pending before the Commission.

Automated Phone Service to Contact Water and Sewer Customers

In 2012, several water and sewer utilities, citing the time and expense involved in providing notice of non-payment, filed petitions for consent and approval for an automated phone service to provide notice that water service will be discontinued for nonpayment of a water and/or sewer bill. They also applied for a waiver of the requirements of Rule 4.8.a.3.A. of the Commission's Rules for the Government of Water Utilities 150 C.S.R. 7, and Rule 4.8.b.3. of the Commission's Rules for the Government of Sewer Utilities 150 C.S.R. 5, which require utilities to attempt to make personal contact before discontinuing water service due to the nonpayment of a water or sewer bill. The Commission has previously granted similar petitions filed by the City of Hurricane (Case No. 09-1331-WS-PS) and the City of Moundsville (Case No. 10-0735-WS-PW), subject to certain conditions and requirements, including reporting requirements regarding the costs and savings associated with the use of the program.

On January 15, 2013, the Commission ordered that, provided those automated systems provide certain customer protections, all water and sewer utilities in the State may use automated phone systems to affect personal contact.

Water and Sewer Certificate Cases

During 2012, the Commission processed forty-one cases in which municipalities, public service districts and water or sewer associations sought certificates of convenience and necessity to expand, upgrade or replace water and sewer infrastructure within their service territories. Typically, the utility seeking a certificate of convenience and necessity for a proposed project submits an application along with an engineering study describing the scope of the project, specifications for physical infrastructure to be constructed, estimated costs and the benefits to be provided by the project. The filing also describes the sources of funding for the project such as loans and grants and contains detailed financial statements about the impact of the project in terms of any additional customer revenue, changes in operating expenses and annual debt service requirements related to the project. The utility may request increased rates to support project costs.

The filing is reviewed to determine the adequacy of the supporting data, and additional information may be requested to assure that the Commission has all of the information required to determine the reasonableness of the request. Staff reviews the engineering specifications to determine reasonableness of design and cost. Staff also reviews and analyzes the financial and operational data to determine appropriate rates levels, if the utility's current rates will not generate adequate revenue to support project costs.

A public hearing is held at which evidence is taken from the utility, Staff, and any interveners about the need for the project, any needed modifications to the project, and proper rate levels required to support it. The Commission uses this evidence to determine if the project should be granted a certificate and the appropriate rates as required.

Following is a table summarizing those projects for which certificates of convenience and necessity were approved during 2012.

Utility – Project	Case Number	Date Filed	Estimated Cost	Pre-Project Customers	Customers Added	Date Approved
Mingo County PSD - Waterline Extension to Kermit	11-1312-PWD-CN-PC	September 8, 2011	$2,913,000	3,417	101	January 2, 2012
Town of Paw Paw - Sewer System Additions and Improvements	11-1301-S-CN	September 7, 2011	$2,000,000	239	N/A	January 16, 2012
Town of Gilbert - Water System Extension Horsepen/Gilbert Creek/ Browning Fork	11-1353-W-CN	September 15, 2011	$6,629,000	602	439	January 23, 2012

Utility – Project	Case Number	Date Filed	Estimated Cost	Pre-Project Customers	Customers Added	Date Approved
City of Hinton - Sewer System Extension to Brooks and Barksdale	11-1441-S-CN	September 30, 2011	$4,004,000	1,280	82	January 23, 2012
Pleasant Hill PSD - Water System Improvements	11-1241-PWD-CN	August 24, 2011	$2,215,000	654	44	February 15, 2012
Northern Jackson County PSD - Water Distribution System Improvements	11-1356-PWD-CN	September 15, 2011	$2,300,000	960	50	February 15, 2012
Oakland PSD – Water Treatment Facility upgrade and extension	11-1506-PWD-CN	October 14, 2011	$4,336,455	847	86	February 16, 2012
Corporation of Shepherdstown - Water Storage and Distribution Improvements	11-1440-W-CN	September 30, 2011	$4,900,000	1,540	N/A	March 1, 2012
Logan County PSD - Water Extension Hurricane Branch/Dog Fork/Hubert Hill and Anchor Road	11-1439-PWD-CN	September 30, 2011	$5,000,000	9,778	123	March 4, 2012
Friendly PSD - Water System additions and improvements	11-1467-PWD-CN	October 6, 2011	$2,786,000	731	159	March 6, 2012
Logan County PSD - Water Extension to Striker Fork/East Fork/Big Harts/Marsh Fork and surrounding areas	11-1442-PWD-CN	September 30, 2011	$2,960,000	9,778	160	March 21, 2012
City of Kingwood - WV Route 7 Extension	11-0257-S-CN	February 24, 2011	$15,995,000	1,415	70	March 22, 2012
Town of Poca - Upgrade and Improvement of the Town's existing wastewater collection system	11-1741-S-CN	December 6, 2011	$1,325,600	680	N/A	April 2, 2012
Cowen PSD - Additions and Improvements to existing Sewer System	11-1621-PSD-CN	November 3, 2011	$7,192,000	605	N/A	April 8, 2012
Mineral Wells PSD - Treatment Plant Improvements	11-1039-PSD-CN	July 20, 2011	$4,900,000	1,695	N/A	April 9, 2012
Morgantown Utility Board - Extension of Water System to Quarry Run Rd and Whispering Woods	11-1567-W-CN	October 25, 2011	$2,275,126	24,129	47	May 3, 2012
Town of Wayne - Construction of Sanitary Sewers and Storm Sewers	11-1526-S-CN	October 18, 2011	$3,012,000	752	N/A	May 20, 2012
City of Lewisburg - Additions and Improvements to existing waterworks system	12-0052-W-CN	January 17, 2012	$750,000	4,656	N/A	May 21, 2012
Preston County PSD #4 - Clifton Mills/Lenox/ Cuzzart Water Project	11-1435-PWD-CN	September 30, 2011	$17,626,809	947	498	May 24, 2012
Town of Hartford - Additions and Improvements to Existing Sewer System	12-0224-S-CN	February 10, 2012	$2,020,120	212	N/A	May 31, 2012
Sugar Creek PSD - Extension of Water Service to Rosedale	12-0210-PWD-CN	February 3 ,2012	$2,649,992	490	70	June 6, 2012
Central Boaz PSD - Existing System Improvements (Petition to Reopen)	11-0889-PWD-CN-PC	June 21, 2011	$1,520,000 (Revised upward from $1,400,000)	628	N/A	June 15, 2012
Southern Jackson County PSD - Improvements and Extension to water lines	12-0060-PWD-CN	January 19, 2012	$3,670,000	2,315	60	June 21, 2012

Utility – Project	Case Number	Date Filed	Estimated Cost	Pre-Project Customers	Customers Added	Date Approved
Marshall County PSD #3 - Additions and Improvements to existing water system	12-0215-PWD-CN	February 8, 2012	$3,550,022	1,124	38	June 26, 2012
Mason County PSD - Construction of Camp Conley Wastewater Treatment Plant	12-0329-PSD-CN	March 15, 2012	$7,500,000	253	30	July 1, 2012
Logan County PSD - Sewer Extension to Upper Crooked Creek, Lower Copper Mine Fork and surrounding areas	11-1808-PSD-CN	December 30, 2011	$11,740,000	9,778	365	July 3, 2012
Lavalette PSD - Water Main Extensions to provide service to the communities of Nestlow and Girard	12-0218-PWD-CN	February 8, 2012	$4,531,000	3,607	162	July 9, 2012
City of Piedmont - Additions and Improvements to Existing Waterworks	12-0241-W-CN	February 17, 2012	$595,000	411	N/A	July 18, 2012
City of War - Phase 5 and 6 improvements to existing water system	12-0333-W-CN	March 16, 2012	$2,747,268	478	65	July 19, 2012
City of Spencer Waterworks - Upgrade aging portions of existing water distribution system	12-0221-W-CN	February 9, 2012	$1,500,000	2,105	N/A	July 25, 2012
City of Wheeling - Improvements to existing water treatment plant	12-0011-W-CN	January 5, 2012	$41,850,000	13,421	N/A	August 20, 2012
Norton-Harding - Jimtown PSD – Phase 2 Sanitary Sewer Extension to Norton and Coalton	12-0386-PSD-CN	March 27, 2012	$2,900,000	78	265	October 1, 2012
Boone County PSD – Extension of water and fire protection service to the community of Mud River	12-1276-PWD-PC-CN	September 10, 2012	$2,100,000	1,911	132	October 2, 2012
City of Pennsboro - Improvements and Upgrades to existing wastewater treatment plant	12-0754-S-CN	June 5, 2012	$2,091,000	544	N/A	October 3, 2012
Greater Marion PSD– Wastewater Collection Facility replacement project	12-0571-PSD-CN	May 3, 2012	$5,700,000	404	N/A	October 7, 2012
Berkeley County PSD - Existing Water System Improvements	11-1748-PWD-CN	December 7, 2011	$10,500,000	20,200	N/A	October 15, 2012
City of Philippi – Replacement of the Tygart treatment plant and other upgrades	12-0905-S-CN	June 29, 2012	$3,438,800	1,231	50	October 30, 2012
Town of Camden-on-Gauley – Replacement of old, undersized water system	12-0745-W-CN	June 5, 2012	$3,461,000	193	N/A	November 21, 2012
Cowen PSD - Additions and Improvements to existing Water System	12-1041-PWD-CN	July 25, 2012	$1,000,000	1,132	N/A	November 21, 2012
Sistersville Municipal Sewer Department - Additions and Improvements to Existing Sewer System	12-0678-S-CN	May 22, 2012	$1,100,000	661	45	November 25, 2012
City of Charles Town - Generators for water treatment plant	12-1005-W-CN	July 23, 2012	$1,555,000	5,565	N/A	December 3, 2012

The total value of the above water and sewer projects for which certificates of convenience and necessity were approved during the period was approximately $210,839,192. Twenty-three of those projects provided for the extension of service to 3,141 new customers.

Municipal Appeals

The Commission does not have the direct statutory authority for the economic regulation of the rates charged by the water and sewer utilities operated by municipalities. Municipalities may change the rates they charge for water or sewer service by adopting rate ordinances pursuant to state statutes without seeking prior Commission approval.

The Commission, however, may invoke jurisdiction under W.Va. Code §24-2-4b suspending the use of new rates adopted by a municipality pending investigation if it receives a petition signed by not fewer than twenty-five percent of the customers within the utility's municipal limits or from a customer served outside of its corporate limits claiming prejudice. In such instances Staff performs a full review of the utilities books and records, and makes recommendations for appropriate rate levels based on that review. A public hearing is held and evidence is received from the municipality, Commission Staff, and any interveners about the proper rate levels.

Issues that must be resolved vary in complexity from case to case. Following the hearing, the Commission either approves the rates adopted by ordinance or sets rates at a different level based on the evidence submitted at the hearing.

Eleven water and sewer municipal appeal cases were completed in 2012. Those cases are summarized below.

Utility	Case Number	Ordinance Increase	Staff Recommended	Amount Granted	Percent increase	Customers	Date Approved
City of Kenova	11-1513-S-MA	$210,223	$ 131,878	$131,878	10.00%	1,393	February 13, 2012
City of Wheeling	11-1772-S-MA	$1,383,549	$942,238	$942,238	17.50%	12,645	April 19, 2012
Town of Fort Gay	12-0080-W-MA	$ 227,609	$ 97,733	$97,733	31.40%	712	June 7, 2012
City of Elkins	12-0889-S-MA	$ 361,819	N/A	N/A	N/A	2,952	Appeal Declined
City of Ronceverte	12-0529-W-MA	$ 128,419	$107,050	$107,050	20.86%	1,002	August 6, 2012
City of Wheeling	11-1770-W-MA	$4,472,413	$2,862,439	$2,862,439	50.50%	12,645	August 20, 2012
Town of Albright	12-0633-S-MA	$6,948	$5,476	$5,476	15.60%	96	September 11, 2012
Town of Albright	12-0619-W-MA	$16,502	$8,693	$8,693	11.35%	155	September 13, 2012
City of McMechen	12-0153-W-MA	$116,382	$14,154	$14,154	14.90%	939	September 25, 2012
Town of Franklin	12-1121-W-MA	$7,234	-$304	-$304	-7.67%	713	November 21, 2012
City of Elkins	12-1123-S-MA	$744,485	$485,192	$485,192	26.38%	2,952	December 20, 2012

Public Water and Sewer Rate Cases

During 2012, the Commission processed various cases in which public service districts sought to increase rates and charges to meet increased costs of operation in the normal course of business. Those water and sewer utilities with annual revenues in excess of $1 million are required to file full financial support for their requested rates. Those proposed rates are published and Staff undertakes a full review of the utility's books and records.

Following its review, Staff files its report(s) resulting from the review and recommends rates. If the utility does not object to Staff's proposed rates, and if there is no significant public protest, Staff's recommended rates may be approved without a public hearing. If the utility objects to Staff's recommendation or if there is significant public protest, a hearing will be held.

Although areas of disagreement and issues of interest vary from case to case, they usually involve such matters as employee compensation and the appropriate cost level to be built into rates for normal capital additions.

Based on the evidence presented at the hearing in these cases, the Commission determines a reasonable level of rates. In 2012, there were eighteen (18) cases completed in which the water or sewer utility filed full financial exhibits in support of their rate requests. Others are in progress. The completed cases are summarized below.

Utility	Case Number	Amount Requested	Staff Recommended	Amount Granted	Percent increase	Customers	Date Approved
Oakland PSD	11-0904-PWD-42A	$84,460	$67,407	$67,407	22.53%	850	January 29, 2012
Raleigh County PSD	11-1492-PWD-42T	$495,540	$62,378	$62,378	2.22%	4,786	February 19, 2012
Preston County PSD	11-0995-PWD-42A	$144,342	$31,326	$31,326	4.58%	949	May 4, 2012
Crum PSD	12-0037-PWD-42T	$79,634	N/A	N/A	N/A	1,044	May 14,2012
Huttonsville PSD	11-1804-PWD-42T	$47,082	$17,664	$28,468	6.42%	1,129	May 29, 2012
Putnam PSD	11-1109-PWD-42T	$819,060	$646,390	$646,390	19.50%	9,250	June 4, 2012
Claywood Park PSD	11-1619-PSD-42A	$129,703	$80,299	$80,299	7.84%	1,653	June 20, 2012
Grandview-Doolin PSD	12-0249-PWD-42T	$47,575	$20,816	$20,816	5.06%	847	June 26, 2012
Logan County PSD	11-1800-PSD-42T	$163,510	$68,051	$68,051	8.05%	1,275	July 8, 2012
Greater Harrison PSD	12-0279-PSD-42T	$323,910	$134,413	$134,413	10.42%	2,027	July 23, 2012
Putnam PSD	11-1785-PSD-42T	$398,038	$130,564	$130,564	2.27%	9,849	August 2, 2012
Ohio County PSD	12-0040-PWD-42A	$351,011	$279,896	$279,896	14.25%	4,108	October 16, 2012
Boone County PSD	12-0412-PSD-42A	$281,888	$190,416	$190,416	18.17%	2,230	October17, 2012
Grant County PSD	10-0330-PWD-42T	$546,135	$248,611	$248,611	21.90%	2,700	October 21, 2012
Craigsville PSD	12-0518-PWD-42A	$97,291	$57,356	$57,356	10.64%	999	October 31, 2012
Craigsville PSD Step 2	12-0518-PWD-42A	N/A	$19,165	$19,165	3.55%	999	October 31, 2012
Craigsville PSD	12-0519-PWD-42A	$80,694	$65,079	$65,079	7.45%	1,945	October 31, 2012
Craigsville PSD Step 2	12-0519-PWD-42A	N/A	$40,724	$40,724	4.65%	1,945	October 31,2012
Elk Valley PSD	12-1500-PSD-42T	N/A	N/A	N/A	N/A	N/A	Case Dismissed
Greenbrier County PSD # 1	12-0152-PSD-42A	N/A	N/A	N/A	N/A	N/A	Case Dismissed

Rule 19A Cases

The Commission's Rules permit smaller utilities with revenues up to $1,000,000 to file for increased rates without supporting financial statements. In those instances, Commission Staff performs all of the requisite financial analyses required to establish appropriate rate levels. In most instances, the utility does not request specific rates or a given level of increase. Staff files a report based on its review and recommends new rates for the utility. The utility is required to publish Staff's recommended rates. If the utility does not object to Staff's recommended rates and there is not significant public protest, the Commission usually approves Staff's recommended rates without a hearing. If the utility objects to Staff's recommendation or if there is significant public protest, a hearing will be held to determine if Staff's recommended rates should be approved or modified.

Typically, the issues in this type of case are relatively simple, and the utilities frequently do not object to Staff's recommendation. Twenty-four of these rate filings were completed though December 31, 2012. Those cases are summarized below.

Utility	Case Number	Amount Requested	Staff Recommended	Amount Granted	Percent increase	Customers	Date Approved or Case Closed
Fountainhead Homeowners Association, Inc.	11-1702-S-19A	Dismissed	$0	$0	0%	90	January 9, 2012
Washington Pike PSD	11-1023-PWD-19A	N/A	$40,613	$40,613	8.73%	1,387	January 12, 2012
New Creek Water Association, Inc.	11-1190-W-19A	$70,376	$34,623	$34,623	6.9%	1,298	February 16, 2012
Hampton Roads Water System	11-0871-W-19A	N/A	$1,812	$1,812	20%	75	February 23, 2012
Wetzel County PSD	11-1367-PWD-19A	N/A	$43,138	$43,138	13.23%	584	February 28, 2012
Bluewell PSD	12-0271-PWD-19A	Dismissed	$0	$0	0%	3,002	April 13, 2012
Birch River PSD	11-1610-PWD-19A	Withdrawn	$0	$0	0%	366	April 29, 2012
Arbuckle PSD	11-1145-PSD-19A	N/A	$24,716	$24,716	5.6%	613	May 6, 2012
Coon's Run PSD	11-1220-PWD-19A	N/A	($12,579)	($12,579)	(5.9%)	415	May 6, 2012
Meadow Creek PSD	12-0346-PSD-19A	Withdrawn	$0	$0	0%	105	May 11, 2012
Chestnut Ridge PSD	11-1529-PWD-19A	N/A	$5,364	$5,364	.9%	1,028	May 31, 2012
Hamlin PSD	12-0041-PSD-19A	N/A	$8,159	$8,159	3.8%	745	July 16, 2012
Red Sulphur PSD	11-1759-PSD-19A	N/A	$13,347	$13,347	2.3%	1,218	July 25, 2012
Red Sulphur PSD	11-1758-PWD-19A	N/A	$83,930	$83,930	10.2%	1,990	July 30, 2012
Mountain Top PSD	12-0245-PSD-19A	N/A	$4,957	$4,957	3.7%	304	August 14, 2012
Paw Paw Rt. 19 PSD	12-0389-PWD-19A	N/A	$14,708	$14,708	4.75%	540	August 22, 2012
West Virginia Resorts, LLC, dba The New Windwood Fly-in Resort	12-0234-WS-19A	N/A	$0	$0	0%	67	September 3, 2012
Adrian PSD	12-0057-PWD-19A	N/A	$24,409	$24,409	2.5%	1,958	September 20, 2012
Ministers Run Water Association	12-0273-W-19A	N/A	$24,138	$24,138	40.2%	160	September 20, 2012
Summit Park PSD	12-0345-PWD-19A	N/A	$19,301	$19,301	9.09%	430	September 20, 2012
Woods Homeowners Association, Inc.	12-0491-W-19A	N/A	$34,187	$34,187	9.07%	1,263	October 2, 2012
Colfax PSD	12-0213-PSD-19A	N/A	$3,572	$3,572	8.7%	137	October 16, 2012
Bramwell PSD	12-0262-PSD-19A	N/A	$8,203	$8,203	7.25%	215	November 13, 2012
White Oak PSD	12-0489-PSD-19A	N/A	$19,762	$19,762	5.53%	1,118	November 25, 2012

Rule 30B Pass-Through Cases

The Commission's Rules also permit smaller water and sewer utilities that purchase finished water for resale from another water utility or that have the sewage they collect treated at a plant operated by another utility to file to recover increases in resale rates charged to them on an expedited basis. This type of filing allows the purchasing utility to increase rates to its customers only enough 'to make them whole' for the increased cost of purchased water or sewage treatment services provided by the other utility. The utility is required to publish the new rates and an opportunity for public protest is provided.

Typically, there is no dispute between the utility and Staff as to the correct amount by which to increase rates to allow recovery of increased costs, no significant public protest is received, and the rates are approved without the need for public hearing. While reviewing ten of these filings, it was determined that the utility had reported unusually high levels of unaccounted for or lost water. In those instances the Commission required the utility to determine the causes of the high water losses, to develop a remediation plan, and to report the results of steps taken prior to approving the interim rate increases as final rates. Twenty-two of these type of rate filing were completed through December 31, 2012. Those cases are summarized below.

Utility	Case Number	Amount Requested	Staff Recommended	Amount Granted	Percent Increase	Customers	Date Approved
Putnam PSD	11-1469-PSD-30B	$5,085	$5,085	$5,085	0.11%	9,799	January 3, 2012
Decker Creek PSD	11-1520-PSD-30B	$50,227	$50,227	$50,227	10.86%	1,706	January 10, 2012
River Road PSD	11-1565-PWD-30B	$54,799	$54,799	$54,799	17.60%	612	January 30, 2012
Northern Wayne County PSD	11-1582-PSD-30B	$28,991	$28,991	$28,991	1.31%	2,753	January 31, 2012
Greater Harrison PSD	11-1496-PWD-30B	$28,456	$28,456	$28,456	1.90%	3,286	April 4, 2012
Raleigh County PSD	11-1799-PWD-30B	$70,109	$70,109	$70,109	2.60%	4,781	April 13, 2012
Clay Battelle PSD	11-1519-PWD-30B	$174,532	$174,532	$174,532	34.60%	1,645	April 24, 2012
Mineral Wells PSD	11-1708-PWD-30B	$7,489	$7,549	$7,549	0.67%	2,390	April 24, 2012
Monumental PSD	11-0834-PWD-30B	$15,234	$15,234	$15,234	4.19%	882	April 30, 2012
Paw Paw Route 19 PSD	11-0836-PWD-30B	$8,344	$8,850	$8,850	3.32%	540	May 11, 2012
Ice's Run Route 250 PSD	11-0838-PWD-30B	$8,907	$8,907	$8,907	3.76%	478	June 4, 2012
Little Creek PSD	11-0832-PWD-30B	$14,739	$14,919	$14,919	4.25%	847	June 18, 2012
Downs PSD	11-1036-PWD-30B	$11,211	$11,211	$11,211	4.03%	452	July 12, 2012
Cool Ridge-Flat Top PSD	12-0028-PWD-30B	$29,601	$29,601	$29,601	3.85%	1,799	July 24, 2012
Ohio County PSD	12-0713-PSD-30B	$1,722	$1,722	$1,722	0.11%	1,968	July 24, 2012
Pleasant Hill PSD	11-1779-PWD-30B	N/A	$8,310	$8,310	3.29%	655	July 26, 2012
Valley Falls PSD	11-0835-PWD-30B	$21,661	$21,661	$21,661	3.55%	1,590	July 27, 2012
Greater St. Albans PSD	12-0027-PSD-30B	$18,783	$18,783	$18,783	1.51%	1,609	July 27, 2012
Raleigh County PSD	12-0499-PWD-30B	$5,235	$5,235	$5,235	0.14%	4,781	July 27, 2012
Mannington PSD	11-1189-PWD-30B	$8,807	$13,037	$13,037	3.16%	599	August 16, 2012
Pleasant Valley PSD	12-0235-PWD-30B	$140,630	$141,767	$141,767	92.20%	921	August 24, 2012
Hamrick PSD	12-1055-PSD-30B	$4,991	$4,991	$4,991	3.19%	439	November 14, 2012

Seminars

Chapter 16, Article 13A, of the West Virginia Code requires newly-appointed public service district board members to attend and complete the Public Service District Board Members Seminar within six months of taking office. This seminar is established and administered by the Commission in conjunction with the DEP and the Bureau for Public Health and provides a general overview of areas in which board members need to have knowledge and understanding, including regulatory requirements, administrative issues, project financing, legal requirements, liability, technical items, ethics, open meetings, and financial information. In 2012, PSD Board Member Seminars were held in both South Charleston and Bridgeport and were attended by 53 participants.

In addition to the Board Members Seminars, the Division presented ten focused subject seminars, including customer service, utility management, safety, accounting, finance, fraud and budgeting. In 2012, a total of 153 (excludes participants in the PSD Board Members Seminar) attendees participated in these seminars.

An OSHA Safety Seminar provided attendees the ability to earn an OSHA safety certification card, and water and sewer plant operators earned ten Continuing Education Hours required for their Operator’s License. This year a new seminar in Excavation and Trenching was added. These seminars were well received and are important for utility personnel and management as they seek to reduce lost time accidents. The seminars were sponsored by the Commission and taught by safety specialists with the West Virginia Division of Labor.

A Rule 42 Financial Exhibit is the required financial document used in both rate and certificate cases before the Commission. In 2012, the Commission conducted two new Rule 42 Seminars in partnership with the WVIJDC. This seminar is extremely popular with utilities and Certified Public Accounting firms and provides an overview of the WVIJDC process, the requirements for Rule 42s submitted with WVIJDC applications, and a discussion on Rule 42 requirements. Because of its popularity, this seminar will be conducted again in 2013.

Six meetings were held at various Regional Planning and Development Councils throughout the State. In these meetings, Commission assistance staff met with staff of the Planning and Development Councils to discuss issues with and answer questions about, the WVIJDC and Commission processes as they concern water and sewer utilities. Commission Staff then made themselves available to water and sewer utilities in each Region to provide technical assistance as needed in addressing financial, managerial, administrative, and some technical issue areas. The remaining 11 Regional Council meetings will be held in 2013.

In addition, the Commission shifted the training focus for Annual Reports from workshops to on-site assistance for individual utilities in order to address particular areas of need. Several small utilities sought assistance in preparing and submitting their Annual Reports. The Commission will continue to offer this type of one-on-one assistance and conduct an Annual Report Seminar in 2013 to provide direction to smaller water and sewer utilities as they file their Annual Reports.

Staff attended and presented two seminars at the West Virginia Rural Water Association's Annual Conference in 2012. The first seminar was titled "Understanding Your Utility's Tariff" and included information on billing and tariff topics. The second seminar was titled "Office Employee Refresher on Public Service Commission Requirements". The Commission's Water and Sewer Rules and the National Association of Regulatory Utility Commissioners (NARUC) Record Retention Policy were reviewed by the the nearly 100 utility personnel who attended these seminars.

In 2013, the Commission will again conduct a Fraud Seminar to provide information on how to prevent or uncover fraud within a utility. This seminar will be targeted toward senior level utility management and certified public accountants who audit utilities. We are fortunate to partner with a nationally recognized fraud and accounting expert, Dr. Richard Riley, the Louis F. Tanner Distinguished Professor of Public Accounting at West Virginia University's College of Business and Economics.

Finally, Staff began the process of working with the Office of Technology to allow the Commission to provide online training in 2013. Four potential topics have been identified: Understanding Your Utility Tariff; Alternate Main Line Extensions; Basic Accounting; and Utility Cases. Several of these seminars have been approved for Continuing Education Hours for water and wastewater operators. These courses will allow operators to fulfill their continuing education requirements in a convenient, cost effective and timely manner using on-line facilities.

Telecommunications

Frontier Escrow Accounts for Service Quality Improvement and Broadband Expansion

On May 21, 2010, the Commission approved an Escrow Agreement by Verizon West Virginia, Inc. (now Frontier West Virginia) for $74.4 million to be used to improve the quality of local exchange service (Case No. 08-0761-T-GI). In 2012, the Commission approved the release of nearly $39 million from this escrow account.

On September 21, 2010 Frontier agreed to deposit $60 million in an escrow account to guarantee their commitment to spend $48 million on broadband deployment by December 31, 2013, and to spend $12 million on capital expenditures, specifically targeted toward improving the quality of basic local exchange service for retail customers in low density areas by December 31, 2011 (Case No. 09-0871-T-PC). In 2012, the Commission approved the release of approximately $21.5 million from this account.

Frontier is reporting that in 2012, it spent approximately $12 million on broadband expenditures, bringing its total broadband expenditures to over $33 million since July 2010. Frontier also reports it has extended broadband availability to 156,000 additional households, making broadband available in 86.2 percent of households in the former Verizon service areas in West Virginia.

Universal Service Lifeline Assistance Program

In February 2012, the Federal Communications Commission (FCC) extensively revised its rules regarding the Universal Service low income assistance programs. The FCC eliminated Universal Service Support for the Link-Up Program. They also replaced the three tiered reimbursement structure with a single Lifeline credit of $9.25 per month per line and changed the criteria for eligible Lifeline customers to include those whose income was at or below 135% of the federal poverty level. The Commission, accordingly, approved 16 related carrier tariff changes.

In 2012, the Commission approved five new carriers as Eligible Telecommunications Carriers (ETCs) enabling them to receive reimbursement from the Universal Service Fund for Lifeline assistance to low income households.

PSC Grants Petition to West Virginia Division of Highways to Implement 511 Dialing Code

On June 19, 2012, the West Virginia Department of Transportation, Division of Highways (WV-DOH) filed a petition with the Commission requesting permission to implement the 511 dialing code in order to improve communication relating to traffic and transportation conditions (Case No. 12-0826-T-P). The 511 system is intended to assist motorists in West Virginia and enhance public safety by providing information about accidents or adverse travel conditions.

The Commission formed a Task Force, investigated the proposal from WV-DOH, and after a series of meetings, approved the assignment of the 511 dialing code to WV-DOH. On October 25, 2012, the Commission issued an Order, accepting the recommendation from the Task Force, noting that all wireline carriers currently providing retail telecommunications services in West Virginia would need to program their switching equipment to properly route 511 calls. Additionally, the Commission ordered that because WV-DOH would bear all the costs of establishing the 511 program, no additional costs were to be passed on to the ratepayers.

Federal Communications Commission Order 11-161

On November 18, 2011, the Federal Communications Commission (FCC) issued Order 11-161, which made changes to the Voice Over Internet Protocol/Public Switched Telephone Network (VOIP/PSTN) billing practices, the Lifeline Assistance Program and incorporated a phase down plan for reducing the Incumbent Local Exchange Carrier (ILEC) Interstate Access Rate.

In February 2012, the FCC issued a second order relating to the origination of VOIP/PSTN traffic. The second Order created a need for several carriers to file an additional tariff to this Commission. As a result, the Commission's Telecom Staff reviewed 47 Individual Tariff revisions, bringing the total to 63 Individual Carrier tariff reviews in 2012.

Transportation

Since its inception in 2003, the Coal Resource Transportation System (CRTS) has significantly increased public safety while allowing West Virginia coal producers to efficiently transport coal in eighteen West Virginia counties and into surrounding states. Coal facilities and transporters now work together to haul enhanced weights on 2,160 miles of West Virginia's roads designated by the West Virginia Department of Highways as CRTS routes. Coal operations and transporters operating on designated CRTS roads must adhere to additional reporting and permitting statutes and regulations and are subject to administrative sanctions by the Commission.

Notices of Violation are initiated through audits conducted by CRTS supervisors and inspectors or by uniform traffic citations issued by enforcement officers. In 2012, there were 283 Notices of Violation issued, two Temporary Petitions for Waiver were processed, and the Commission collected $245,047 in payment of CRTS violations.

Also in 2012, the CRTS Permitting Unit issued 2,159 CRTS permits and registered 322 transport companies in eight States. The CRTS Reporting Unit currently has 224 registered mines; processing plants; load outs; power plants; and other coal facilities operating in West Virginia and reporting coal shipments to the Commission. These shipping and receiving points submit daily electronic files to the Commission including unique tracking information for over 1,300,000 shipments of coal annually. Each transaction contains the origin; destination; date; time; weight; permit ID; and a unique transaction number for that specific shipment of coal. Records are forwarded to the CRTS Auditing Program within the Reporting Section and are reviewed by CRTS inspectors and their supervisor to detect non-compliance. Commission Staff conducts on-site inspections and audits, and is responsible for initiating administrative violations to companies.

CRTS Revenue Collected in 2012

Permitting Revenue	$879,501
Processing Revenue	$78,925
Tonnage Revenue	$2,065,780
Administrative Sanctions	$245,047
Total Revenue	$3,269,253

While working to increase safety enforcement for commercial motor vehicles on interstate highways and heavily traveled roadways, officers in the Transportation Division undertook a number of initiatives to increase commercial vehicle safety on our highways, including conducting an annual non-stop 72 Hour Road Check and participating in the annual Brake Safety Week and Operation Safe Driver, all of which are sponsored by the Commercial Vehicle Safety Alliance and the Federal Motor Carrier Safety Administration.

For the second consecutive year, the Commission's Safety Enforcement program in 2012 was recognized as the Highest Achieving Safety Enforcement program in the Country among States receiving less than $2 million of annual funding. This prestigious award is presented each year to the most productive and focused safety enforcement program for interstate and intrastate motor carriers. During 2012, Commission Enforcement Officers increased the number of Level III inspections (focusing on the driver) on rural roads by approximately 31.84%.

Commission Enforcement Officer Dave Harris, working in cooperation with the Transportation Security Administration, and Department of Homeland Security (including US Customs and Border Patrol) worked with the Visible Intermodal Prevention and Response team (VIPR) throughout West Virginia for the purpose of removing terrorism from the Nation's roadways. The team, which includes Bomb Technicians and a Behavior Detection Officer, specifically looks at vehicles that have the potential to transport radioactive materials. The team remains in constant communication throughout the year, exchanging critical information relative to potential hazards.

Reggie Bunner, a Manager in the Public Service Commission Transportation Enforcement Division, was recognized in 2012 by the Federal Motor Carrier Safety Administration for his work updating the Hazardous Materials Training coursework used by all Transportation Enforcement Officers nationwide. Over the past year, Bunner worked with four other Transportation Enforcement Officers from throughout the United States to add new curriculum, rewrite tests and update course exercises. The updates were necessary due to a number of changes in the Federal Motor Carrier Rules and Regulations.

The Commission's Railroad Safety inspection program was rated #6 in the Nation by the Federal Railroad Administration based on a number of factors including inspection days, reports and violations.

Motor Carrier and Solid Waste Rates

Fuel Surcharges

The Commission has continued to respond to the high cost of fuel for motor carriers by reviewing and adjusting, as needed, fuel surcharges for regulated motor carriers that remain in effect today. This series of surcharges was initiated in M.C. General Order No. 56.4 (Reopened) in March 2004 following a dramatic increase in fuel prices from previous levels. The most recent surcharges are based on forecasted fuel prices for the period of January 1, 2013, through June 30, 2013.

The average price per gallon for unleaded regular gasoline is forecasted to be $3.55 and the price of diesel is forecasted to be $4.01. This forecast reflects the continued steady increase in fuel prices experienced by carriers over the last several years following a brief period of moderate fuel prices.

The authorized surcharges are currently in the 8% range for most motor carriers. Fuel prices are reviewed every six months to determine if there is a need to continue to give relief to eligible motor carriers, they are not automatic. Eligible motor carriers may not charge the new surcharge until and unless they have filed an application with the Commission's Tariff Office.

Solid Waste Facilities/Landfills

The Commission Staff continues to improve upon and build a strong working relationship with the West Virginia Department of Environmental Protection (DEP), the Solid Waste Management Board and West Virginia State Treasurer's Office in an ongoing effort to provide consistent recommendations that conform with the requirements of other agencies' rules and regulations, as well the Commission's rules and regulations. Some of the significant cases before the Commission in 2012 included:

Elkins-Randolph Landfill Closure Request

On October 6, 2011, the City of Elkins (Elkins) filed a letter with the Commission stating that the Elkins-Randolph County Landfill had ceased operation and was no longer accepting solid waste for disposal (Case No. 11-1466-SWF-X). Elkins stated that it had provided notice to the DEP, landfill customers, and the public. Elkins explained that its City Council authorized the landfill closure by resolution on April 21, 2011, because net losses for the last three fiscal years had ranged from $155,000 to $270,000. The entire waste stream from the Elkins-Randolph County Landfill had been diverted to the Tucker County Landfill.

On November 5, 2012, the Commission issued a Final Order which placed a moratorium on the Elkins-Randolph County Landfill's acceptance of solid waste. That moratorium will continue until further Order of the Commission. This case is now closed.

Closure and Post Closure Escrows For Landfills

The Commission Staff met with DEP representatives to facilitate the transfer of control of closure and post closure escrow accounts to the West Virginia State Treasurer's Office (WVSTO) as required by the DEP. Staff will recommend the transfer to the WVSTO as rate adjustments are processed, or the DEP will initiate the transfer as landfill permits are up for renewal.

Envirco, Inc.

In 2010 the West Virginia Legislature passed Senate Bill 398, which modified W.Va. Code § 22-15A-22, prohibited the disposal of covered electronic devices in landfills. Covered electronic devices are defined as electronic devices with screens larger than four (4) inches. Envirco, Inc. had experienced problems with landfills refusing to accept covered electronic devices and petitioned the Commission requesting guidance as to whether Rule 6.2.p. of the Rules Governing Motor Carriers was superseded by Senate Bill 398 (Case No. 11-0948-MC-P). Rule 6.2.p. states motor carriers are not required to collect or transport material that a landfill can lawfully refuse to accept.

Rule 6.6.a. of the Rules Governing Motor Carriers requires certificated motor carriers to provide bulky goods service. Staff stated that covered electronic devices are included in the definition of bulky goods according to Rule 1.8.b. of the Rules Governing Motor Carriers. The WVDEP issued a Memorandum stating that while covered electronic devices cannot be placed in landfills, a landfill must continue to accept covered electronic devices.

The Commission issued an Order on November 16, 2012, holding that because landfills must accept covered electronic devices, certificated solid waste haulers cannot rely on *Rule* 6.2.p. of the Rules Governing Motor Carriers to stop collecting covered electronic devices.

Entsorga West Virginia, LLC

On June 13, 2012, Entsorga West Virginia, LLC (Entsorga), filed an application for a certificate of need to construct and operate a proposed mechanical-biological treatment solid waste management facility in Martinsburg, West Virginia (Case No. 12-0803-SWF-CN). The cost of the proposed facility is approximately $19 million.

Entsorga proposed to charge a base rate of $57.75 per ton, exclusive of state and county assessments of $5.25, for a total gate rate of $63.00 per ton. Entsorga anticipates that 80-100% of the solid waste accepted and processed at the facility will be from sources in West Virginia and that they will receive most of its waste from local waste haulers in Berkeley, Morgan and Jefferson Counties, all of which are located in Wasteshed E. The facility is seeking a permit from the West Virginia Department of Environmental Protection for an average of 7,333 tons per month.

According to Entsorga, less than 30% of the solid waste received at the facility will ultimately end up in a landfill for burial. The remaining solid waste collected will be used to produce a final product that will be sold and used to produce energy. Entsorga's revenues will be primarily generated through the charging of tipping fees to waste haulers for disposal of solid waste, and the sale of solid refuse fuel. Entsorga will also generate revenues from the sale of recyclable material extracted from the solid waste it processes.

On December 12, 2012, Staff recommended that a certificate of need be granted in this case, and that certain changes be made to Entsorga's proposed rate structure. An evidentiary hearing has been scheduled in this matter for February 1, 2013, in Martinsburg. This case is currently pending before the Commission.

Tow Operations

In 2009 the Commission issued an Order in connection with its General Investigation into various aspects of wrecker regulation (Case No. 06-1915-MC-GI). The Commission Staff and the West Virginia Towing Association entered into a stipulation agreement that was eventually adopted by the Commission. Among the issues in that case were the implementation of a new statewide maximum wrecker rate tariff, Commission Rules concerning invoice requirements, and clarification of the Commission's authority regarding the definition of "third party" or "non-consent" tows.

The Commission has continued to process tow cases, which are expedited rate increase reviews based on market comparisons, as well as, "third party" or "non-consent" tow formal complaint cases filed by customers.

From January 1, 2012 through December 31, 2012, twelve tow cases were filed with the Commission. Of these twelve cases, seven were completed with Final Orders issued; Staff has made its final recommendations in three of the cases that are currently awaiting final disposition; and two cases, filed in mid-December, are currently being processed by Staff.

Rule Making Proceedings

Rules and Regulations for Stormwater Utilities

On July 23, 2010, Commission Staff petitioned the Commission to initiate a General Investigation for the purpose of adopting Rules and Regulations for Stormwater Utilities (Case No. 10-1141-S-PC). Staff proposed the creation of rules based on legislative amendments to W.Va. Code 16-13A-9, creating stormwater utilities. Staff, along with representatives of public and private utilities and representatives of the West Virginia Division of Environmental Protection, West Virginia Bureau of Public Health and West Virginia Department of Transportation, drafted Proposed Rules for the consideration of the Commission.

The Commission issued Proposed Rules on June 1, 2012, and received comments from the rulemaking committee, the West Virginia Municipal Water Quality Association, and the Jefferson County Public Service District. The Commission is considering the comments and anticipates issuing Final Rules in the near future.

Rules Governing Innovative, Alternative Sewer Systems

On February 9, 2011, the Commission issued an Order instituting General Order 186.26, new Rules Governing Innovative, Alternative Sewer Systems, 150 C.S.R. Series 35, a proceeding to consider adding rules relating to the provision of innovative sewage treatment services in areas that cannot be economically served by traditional sewer systems.

A work group consisting of representatives of utilities across the State and various State agencies had been working since 2007 to develop proposed Rules for the

Commission's consideration. On April 20, 2010, the work group submitted a copy of its Proposed Rules to Commission Staff. In a cover memo, the work group advised that innovative or alternative systems operate across the country, and the proposed rules were drafted to address the financial and operational issues presented by such systems. Because alternative systems may be used in the poorest areas in West Virginia, sustainability was an important concern for the work group. Members of the work group encouraged the use, where economically viable, of these systems in West Virginia.

On November 22, 2011, the Commission issued an Order promulgating final Rules Governing Innovative, Alternative Sewer Systems. The Commission held that an innovative, alternative method of providing sewer service, if undertaken by an existing utility, is a public utility function and subject to Commission jurisdiction, regardless of the number of customers served by the innovative, alternative method, pursuant to W. Va. Code § 24-2-1(a). If a new entity intends to provide innovative, alternative sewer service to less than 25 customers, it is not a public utility. The new rules took effect on January 23, 2012.

Rules for the Government of Railroad Safety and Sanitation

On March 31, 2011, the Commission issued an Order instituting General Order 189.4, amendments to 150 C.S.R. Series 8, relating to requirements for certain railroad walkways adjacent to railroad tracks and the removal of provisions that were preempted by federal law.

In April, May, August and September, 2011, the Commission received comments on the proposed amendments to Railroad Rules. A hearing was held on July 18, 2011.

On January 17, 2012, the Commission issued a Final Order and adopted revisions to Railroad Rule 4 that require railroads to promptly upgrade walkways in existing yards where there is sufficient space to do so. When the two-foot minimum width cannot be achieved, the Commission held that railroads should make improvements consistent with the standards contained in Rule 4 as circumstances will reasonably allow. The Commission also removed provisions that had been preempted by federal law and conformed the Railroad Rules to the current numbering and formatting requirements of the Secretary of State.

The revised Rules took effect on March 19, 2012.

Rules Governing Motor Carriers, Private Commercial Carriers, and the Filing of Evidence of Insurance and Financial Responsibility by Motor Carriers

On April 12, 2012, the Commission Issued a Final Order in G.O. 64.3 adopting Rules Governing Motor Carriers, Private Commercial Carriers, and the Filing of Evidence of Insurance and Financial Responsibility by Motor Carriers. This accomplished three things.

First, the Commission added a regulation of the federal Pipeline and Hazardous Materials Safety Administration relating to the transportation of hazardous waste to the list of federal safety regulations that the Commission will enforce (M.C. Rule 3.3). Second, the rule revisions added raw coal to the list of the types of cargo that are exempted from the minimum liability insurance requirements protecting the value of the cargo. The amendment did exempt raw coal hauling from requirements for liability coverage for bodily injury or loss or damage to property other than cargo. (M.C. Rule 2.3). Third, a preexisting typographical error was corrected. The Rule change became effective on June 11, 2012.

State and Federal Courts

State Circuit Court

1. *State of West Virginia, ex rel. The Public Service Commission of West Virginia, v. Cliffside Owner's Operating Association, Inc.,* a public sewer utility doing business in Kanawha County, West Virginia. Kanawha County Circuit Court Case No. 07-MISC-192.

Previously, the Circuit Court of Kanawha County placed the Cliffside Owner's Operating Association in the receivership of the City of South Charleston Sanitary Board through an Order entered April 18, 2007. South Charleston completed many necessary repairs and upgrades and began billing and collecting sewer fees from the Cliffside customers, providing the system with needed revenues. No formal complaints have been filed against the Cliffside system since South Charleston assumed receivership. Both the Commission and South Charleston appeared before the Court for bi-annual status conferences.

On November 16, 2011, South Charleston filed a Petition for Consent and Approval before the Commission seeking to formally acquire ownership of the Cliffside abandoned utility assets, as required by W. Va. Code § 24-2-12 (Case No. 11-1695-S-PC). The Commission entered a Final Order on February 21, 2012, granting South Charleston approval to acquire the Cliffside system and commending South Charleston for its exemplary conduct as receiver of the Cliffside system. South Charleston is in the process of taking the actions necessary to acquire legal ownership of the property where the utility facilities are situated.

During the most recent status conference, held on November 29, 2012, the Commission and South Charleston appeared in the Circuit Court of Kanawha County and provided a status update to Judge James C. Stucky. The Staff Attorney for the Commission advised Judge Stucky that South Charleston has continued to maintain and operate the old Cliffside utility system, including billing and collecting fees from the old Cliffside customers. The Commission has not received any formal complaints from the previous Cliffside customers since South Charleston assumed receivership. South Charleston explained that it is making progress toward acquiring legal ownership of the property where the utility facilities are situated. The Court continued the receivership for an additional six months as requested. South Charleston and the Commission are hopeful that the receivership can be ended in 2013, when South Charleston acquires legal ownership of the real estate. The Court scheduled this matter for bi-annual review on May 29, 2013.

2. *State of West Virginia ex rel. Public Service Commission and Wetzel County Solid Waste Authority v. Solid Waste Services and Lackawanna Transport Company*, Case No. 12-C-2375.

The Public Service Commission and the Wetzel County Solid Waste Authority jointly filed a complaint for injunctive relief in Circuit Court to enforce Orders of the Public Service Commission compelling Solid Waste Services and Lackawanna to respond to discovery requests filed by the Wetzel County Solid Waste Authority. The petition requests that the Circuit Court direct the defendants to respond to the discovery requests. A Scheduling Order has not yet been issued by the Court in this filing.

Federal District Court

1. *The City of New Martinsville v. Public Service Commission of West Virginia*, Civil Action No. 2:12-CV-1809.

On June 4, 2012, the City of New Martinsville filed a complaint for declaratory and injunctive relief in the United States District Court for the Southern District of West Virginia. The City contends in its complaint that by determining the utilities own the alternative and renewable credits associated with New Martinsville's Public Utility Regulatory Policies Act (PURPA) power generation, the Commission has failed to properly implement the provisions of PURPA.

This suit is directly related to the appeal taken by New Martinsville to the State Supreme Court which is summarized under the heading Supreme Court of Appeals of West Virginia. In that appeal the Supreme Court issued an Order affirming the Commission's determination that the utility owned credits associated with the PURPA generation for purposes of compliance with the State Alternative and Renewable Energy Portfolio Act.

A Scheduling Order has been issued by the Court with briefs and arguments to be made in 2013. A decision by the Court is expected in 2013.

2. *Morgantown Energy Associates v. Public Service Commission of West Virginia*, Civil Action No. 2:12-6327.

On October 9, 2012, Morgantown Energy Associates filed a complaint in the United State District Court for the Southern District of West Virginia. The complaint is, for all practical purposes, the same as that filed by the City of New Martinsville, previously summarized. In its complaint, however, Morgantown Energy Associates seeks damages from the Commission; therefore, the State insurance carrier participated in the selection of counsel to represent the interest of both the Public Service Commission and the State insurance carrier. Morgantown, like New Martinsville, contends the Commission has failed to properly implement PURPA by determining that the utilities own credits attributable to the generation for purposes of complying with the Portfolio Act.

A decision by the Court is expected in 2013.

Supreme Court of Appeals of West Virginia

1. *City of New Martinsville and Morgantown Energy Associates v. Public Service Commission of West Virginia,* Case Nos. 11-1738 and 11-1739

The City of New Martinsville and Morgantown Energy Associates, both of which are PURPA power generators that sell all of their electricity to Monongahela Power Company and The Potomac Edison Company pursuant to agreements entered into in the late 1980s, filed appeals to the Supreme Court relating to the Commission's decision entered on November 22, 2011. In the Order, the Commission had determined that the utilities own the credits attributable to the power generated by the PURPA projects. The Commission cited three bases under State Law for its determination: (i) the application of state contract law; (ii) consistency with legislative intent under the Alternative and Renewable Energy Portfolio Act, W. Va. Code §24-2F-1 et seq.; and (iii) consistency with the Commission's obligation to insure just and reasonable rates under Chapter 24 of the Code as well as the Portfolio Act.

Following briefing and oral argument, the Court, by Order entered June 11, 2012, affirmed the Commission's Order.

2. *State of West Virginia ex rel. Public Service Commission and the Wetzel County Solid Waste Authority v. Lackawanna Transport Company and Solid Waste Service,* Case No. 12-0527

The Public Service Commission and the Wetzel County Solid Waste Authority jointly filed a petition for a writ of mandamus in the Supreme Court requesting that the Court issue a writ to direct the respondents to comply with an Order entered by the Commission on October 13, 2011, that required them to produce certain information and financial records pertinent to the ongoing PSC investigation concerning the Wetzel County Landfill.

Based on the briefs and arguments of the parties, as well as applicable statutes and legal authorities, the Court granted the relief sought by the Commission and issued a writ of mandamus by Order entered October 23, 2012. Subsequent to the Court's Order, the respondents have filed a request for reconsideration which has been resisted by the Commission and Wetzel County Solid Waste Authority.

3. *Larry V. Faircloth Realty, Inc. v. Public Service Commission of West Virginia*, Case No. 12-1023

Larry V. Faircloth Realty has appealed a Commission Order dated May 9, 2012, that eliminated Capacity Impact Fees that were contained in the tariffs of the Berkeley County Public Service District and the Berkeley County Public Service Sewer District. Although the Petitioner agrees with the Commission action in eliminating the Capacity Impact Fees in the tariffs, the Petitioner contends that the Commission never had jurisdiction to establish the Fees in the first place, and, therefore, the Petitioner is entitled to refunds of any Capacity Impact Fees that it has paid to the utilities.

The matter was the subject of oral argument before the Supreme Court on January 16, 2013. On January 23, 2013, the Supreme Court issued an Order affirming the Commission's May 9, 2012 Order.

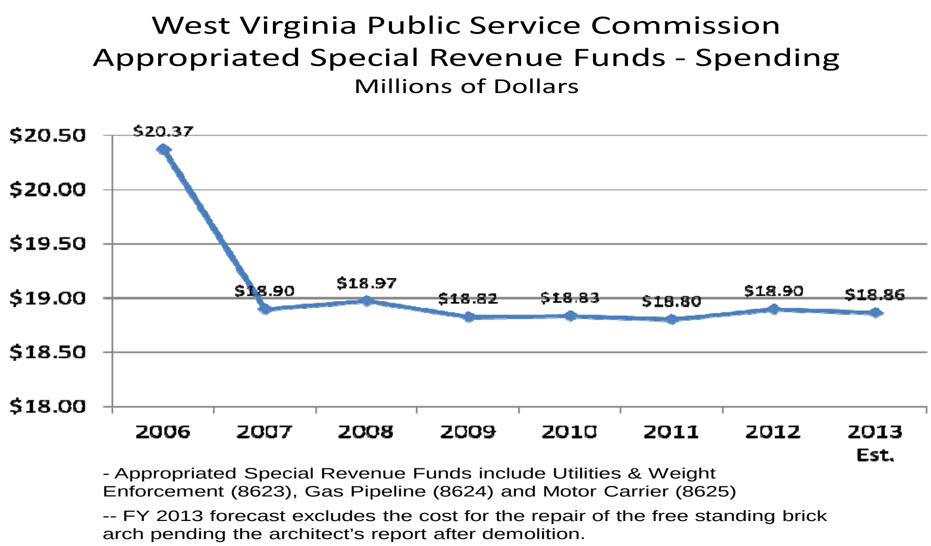
Budget and Human Resources

Financial, Information Technology and Administrative

The Commission has been actively pursuing and implementing savings initiatives over the past seven years. Since 2006, the Commission has documented over fifty (50) individual savings initiatives and projects which have annualized savings over $1 million. The savings for most of these initiatives occur year after year, so cumulative savings far exceed the annual total.

In 2012, the Commission implemented $9,200 of annual savings. The Commission's general insurance dropped by $5,400, primarily due to the Commission's good vehicle safety record. Other notable savings included a $1,300 per year reduction in postage machine lease costs and $2,100 saved by modifying telephone plans.

As a result of this aggressive savings program, the Commission has been able to keep its overall spending flat for all of its appropriated special revenue funds over the past six years. See the chart below.



The savings have also allowed the Commission to pay for numerous facility projects and case-related engineering consultant contracts without requesting supplemental budget appropriations. There were no major spending items in fiscal year 2012. Some of the facility improvement projects and engineering consultant contracts that have been paid for without an increase in our budgets are detailed in the following chart.

Facility Projects	Cost
Main building roof replacement (2009)	$140,165
HVAC chiller replacement (2010)	$110,000
Brick and paving project (2008)	$59,973
Main Hearing room audio and video replacement (2008)	$59,100
Cooling coil replacement (2010)	$16,159
Window replacements (2010)	$7,800

Engineering Consultant Contracts	
SAIC* (Alternative and Renewable Energy Portfolio, 2011)	$349,454
Kaltech (TRAIL, 2008)	$249,725
Bates-White (PATH, 2010, 2011)	$236,332

* Science Applications International Corporation

Commission employees continue to support two major state-wide initiatives, the wvOASIS and the PLANS projects. The wvOASIS project will replace many of the State's antiquated administrative systems with a single integrated system. Administration Division employees supported this project by providing information to the wvOASIS team as requested. Activity for wvOASIS will continue at least through fiscal year 2014. The PLANS project will modernize the State's classification and compensation plans. Administration Division employees continue to support this initiative as required.

The Commission's Information Technology (IT) Section continued to reduce paper by scanning paper documents and converting them to electronic documents. Converting documents from paper to electronic form makes the information more assessable, reduces storage costs, and in many cases, the information can be made available on the Commission intranet and/or internet web sites.

The most significant IT project completed in 2012 was an internal Gas Pipeline Tracking System, created to track cases for the Gas Pipeline Safety Section and to replace the existing paper based system. The new tracking system allows for more efficient management of case information as well as the ability to store documents electronically for retrieval later.

Two other important projects were completed which allow Commission staff to collect and analyze day to day pricing data. The "PJM Data" system collects daily wholesale electrical prices, and the "Gas Price Index" system collects daily state gasoline and natural gas prices. This information is used by the Commission in utility rate cases.

Case Processing

Informal Cases

The Commission Utilities and Water and Wastewater Divisions received nearly 10,000 Informal Cases, or Requests for Assistance (RFA) in 2012.

The RFAs come from customers having trouble paying or reconciling a utility bill or experiencing service problems or difficulties in a variety of other areas. RFA calls are routed to our Consumer Affairs Technicians (CATs).

The CATs assist customers in negotiating payment plans, clearing up communication problems or acting as liaisons between utilities and customers to resolve differences. If the problems of customers are not resolved, customers have the option of filing a Formal Complaint with the Commission; however, Formal Complaint proceedings are time consuming and often require attorney representation by the utility and in some cases by the customer.

An internal goal of closing Informal Complaints in thirty days was set in an attempt to lessen the need to file Formal Complaints. Difficulties in obtaining information from some smaller cable and phone companies and the challenges of isolating service problems related to electric, telephone and cable complaints impacted overall numbers in this area.

Another internal goal is to resolve 95% of RFAs at the Informal or RFA level, also lessening the need to file Formal Complaints.

Type of Utility	Number of RFAs Filed in 2012	Percentage of RFAs that closed within thirty days	Number that became Formal Complaint Cases	Percentage of RFAs that did not become Formal Complaints Cases
Electric	3865	90%	87	98%
Gas	914	95%	14	98%
Telephone	1614	85%	20	99%
Water	2244	99.6%	32	99%
Wastewater	839	99.8%	14	98%
Cable	333	81%	3	99%
Totals	**9809**	**89%**	**170**	**98%**

Formal Cases

The Commission handles over 2,000 Formal Cases each year, ranging from complex major rate cases and requests for certificates for multi-billion dollar projects to simple complaint cases.

Utility Cases	2007	2008	2009	2010	2011	2012
Pending at beginning	540	490	440	434	429	441
Opened during year	2176	1930	1901	1806	1685	1611
Closed during year	2226	1980	1907	1811	1673	1652
Pending	490	440	434	429	441	400

Motor Carrier Cases	2007	2008	2009	2010	2011	2012
Pending at beginning	115	154	129	155	119	102
Opened during year	367	319	337	225	217	172
Closed during year	328	344	311	261	234	199
Pending	154	129	155	119	102	75

Coal Cases	2007	2008	2009	2010	2011	2012
Pending at beginning	54	69	142	154	76	77
Opened during year	359	686	547	304	389	283
Closed during year	344	613	535	382	388	316
Pending	69	142	154	76	77	44

Hearings

Commission Hearings ……………………….....23
Administrative Law Judge Hearings …………143

Informal Meetings

January 19, 2012	Primary Power, LLC
February 23, 2012	Mountain View Solar
April 17, 2012	American Natural Gas Alliance
August 20, 2012	FirstEnergy (Overview of Generation Resource Transaction)
November 7, 2012	AEP, APCo (FERC Filings)
November 8, 2012	First Energy

Orders

In 2012, the Commission issued 4,920 Orders.

General Orders

G.O. 182.12
October 10, 2012 — Clarification of Notice of Intent statutory filing requirements and Rule 10.3.a of the Rules of Practice and Procedure.

G.O. 184.28
February 15, 2012 — In the matter of interest to be paid on customer deposits by electric utilities.

G.O. 185.33
February 15, 2012 — In the matter of interest to be paid on customer deposits by gas utilities.

G.O. 186.26
March 22, 2012 — In the matter of proposed Rules Governing Innovative, Alternative Sewer System, 150 C.S.R. Series 35.

G.O. 187.40
May 20, 2012 — In the matter of inviting applications for a Certificate of Convenience and Necessity to provide Telecommunication Relay Service in West Virginia.

G.O. 187.41
February 15, 2012 — In the matter of interest to be paid on customer deposits by telephone utilities.

G.O. 189.4
January 17, 2012 — In the matter of proposed revisions to the Rules and Regulations for the Government of Railroad Safety and Sanitation, 150 C.S.R. Series 8.

G.O. 195.62
August 15, 2012 — In the matter of designation of Darren Olofson as Administrative Law Judge.

G.O. 260 (Pending)
June 1, 2012 — In the matter of proposed Rules Governing Storm Water Utilities, 150 C.S.R. Series 36.

MC G.O. 7.06
August 15, 2012 In the matter of designation of Darren Olofson as Administrative Law Judge.

MC G.O. 56.4
June 26, 2012 In the matter of emergency fuel surcharge for certificated common carriers of passengers and property of motor vehicles.

MC G.O. 56.4
December 21, 2012 In the matter of emergency fuel surcharge for certificated common carriers of passengers and property of motor vehicles.

MC G.O. 64.3
April 12, 2012 In the matter of revised Rules Governing Motor Carriers, Private Financial Responsibility by Motor Carriers, 150 C.S.R. Series 9.

Appendix A

Summary of the
Utility Discount Program

****

December 2012

Through a program created by the West Virginia Legislature in 1983, certain qualifying residential customers are eligible for a special reduced rate schedule in their gas and electric utility rates. The special reduced rate is 20 percent less than the rate applicable to other residential customers obtaining similar service.

Eligible customers must be receiving either:

(a) Social Security Supplemental Security Income (SSI);
(b) WV Works, program previously called Aid to Families with Dependent Children (AFDC) and Temporary Aid to Needy Families (TANF);
(c) Supplemental Nutrition Assistance Program (SNAP) if the recipient is age 60 or older, program previously called Food Stamps.

Following is a report on the 20 percent discount program for the billing months of December 2011 through April 2012. A summary by type of utility (natural gas or electric), including the percentage changes from last year, and individual utility information is detailed.

During the 2011-2012 program year, 36,349 electric customers received $4,073,170.01 in discounts, an average of $112.06 per customer and 12,668 natural gas customers received $1,092,094.65 in discounts, an average of $86.21 per customer.

West Virginia American Water Company

In 2012, West Virginia American Water Company petitioned the Commission requesting permission to establish a Special Reduced Rate Residential Service for its qualifying residential water service customers pursuant to W.Va. Code §24-2A-5. The Commission issued an Order on November 14, 2012 approving that request. Commission Staff is currently meeting with WVAWC and DHHR to discuss the implementation of that program.

REPORT ON 20% DISCOUNT PROGRAM
FOR BILLING MONTHS OF -
DECEMBER 2011 THROUGH APRIL 2012

ELECTRIC UTILITIES

		APPALACHIAN POWER COMPANY	BLACK DIAMOND * POWER COMPANY
1.	Total Applications Received	20,400	
2.	Total Applications Rejected	1,891	
3.	Percent Rejected	9.27%	
4.	No. of Customers Given Discount	18,509	
5.	No. of Residential Customers	370,433	
6.	Percent Given Discount	5.00%	
7.	SSI Customers	12,579	
8.	WV Works Customers	1,828	
9.	Food Stamps +60 Customers	4,102	
10.	Total Bills at Non-Discounted Rates	$11,892,192.80	
11.	Total Bills at Discounted Rates	$9,513,754.24	
12.	Revenue Decrease	$2,378,438.56	$0.00
13.	Adjustment For B&O Tax Reduction	$0.00	$0.00
14.	Revenue Deficiency Certified	$2,378,438.56	$0.00

* Did not file for revenue deficiency certification

Note: For the individual utility information on the following pages, line 13 represents an adjustment to the revenue decrease reported by the utilities (line 12) for business and occupation (B&O) taxes, if appropriate. Since the State Tax Commissioner has determined that the utilities' tax credits would not be subject to taxation, it was necessary to make adjustments for taxes embedded in rates, but which would not be levied. Electric companies are no longer subject to a B&O tax levied on a revenue basis. Thus, only data for natural gas companies shows a tax adjustment for B&O taxes.

The dollar amounts shown on line 14 are less than the actual discounts given to customers, because of the B&O tax adjustment made for all natural gas utilities. Line 10 of the report shows the total bills that qualified customers would have been required to pay in the absence of the discount program. Line 11 represents the discounted bills and line 12 is the actual discount given to customers.

REPORT ON 20% DISCOUNT PROGRAM
FOR BILLING MONTHS OF -
DECEMBER 2011 THROUGH APRIL 2012

ELECTRIC UTILITIES

		MONONGAHELA POWER COMPANY	POTOMAC EDISON OF WVA
1.	Total Applications Received	14,774	3,522
2.	Total Applications Rejected	1,153	371
3.	Percent Rejected	7.80%	10.53%
4.	No. of Customers Given Discount	13,621	3,151
5.	No. of Residential Customers	332,020	117,206
6.	Percent Given Discount	4.10%	2.69%
7.	SSI Customers	9,017	1,503
8.	WV Works Customers	1,115	466
9.	Food Stamps +60 Customers	3,489	1,182
10.	Total Bills at Non-Discounted Rates	$6,091,162.10	$1,869,991.60
11.	Total Bills at Discounted Rates	$4,872,929.68	$1,495,993.28
12.	Revenue Decrease	$1,218,232.42	$373,998.32
13.	Adjustment For B&O Tax Reduction	$0.00	$0.00
14.	Revenue Deficiency Certified	$1,218,232.42	$373,998.32

REPORT ON 20% DISCOUNT PROGRAM
FOR BILLING MONTHS OF -
DECEMBER 2011 THROUGH APRIL 2012

ELECTRIC UTILITIES

		WHEELING POWER COMPANY
1.	Total Applications Received	1,158
2.	Total Applications Rejected	90
3.	Percent Rejected	7.77%
4.	No. of Customers Given Discount	1,068
5.	No. of Residential Customers	35,134
6.	Percent Given Discount	3.04%
7.	SSI Customers	621
8.	WV Works Customers	120
9.	Food Stamps +60 Customers	327
10.	Total Bills at Non-Discounted Rates	$512,503.55
11.	Total Bills at Discounted Rates	$410,002.84
12.	Revenue Decrease	$102,500.71
13.	Adjustment For B&O Tax Reduction	$0.00
14.	Revenue Deficiency Certified	$102,500.71

REPORT ON 20% DISCOUNT PROGRAM
FOR BILLING MONTHS OF -
DECEMBER 2011 THROUGH APRIL 2012

NATURAL GAS UTILITIES

		ASHFORD * GAS COMPANY	BLACKSVILLE OIL & GAS CO.
1.	Total Applications Received		4
2.	Total Applications Rejected		0
3.	Percent Rejected		0.00%
4.	No. of Customers Given Discount		4
5.	No. of Residential Customers		251
6.	Percent Given Discount		1.59%
7.	SSI Customers		1
8.	WV Works Customers		1
9.	Food Stamps +60 Customers		2
10.	Total Bills at Non-Discounted Rates		$1,719.77
11.	Total Bills at Discounted Rates		$1,375.81
12.	Revenue Decrease	$0.00	$343.96
13.	Adjustment For B&O Tax Reduction	$0.00	$14.76
14.	Revenue Deficiency Certified	$0.00	$329.20

* Did not file for revenue deficiency certification; Now part of Mountaineer Gas Co. (11-0460-G-PC)

REPORT ON 20% DISCOUNT PROGRAM
FOR BILLING MONTHS OF -
DECEMBER 2011 THROUGH APRIL 2012

NATURAL GAS UTILITIES

		BLUEFIELD GAS COMPANY	CONSUMERS GAS UTILITY CO.
1.	**Total Applications Received**	92	471
2.	**Total Applications Rejected**	4	
3.	**Percent Rejected**	4.35%	0.00%
4.	**No. of Customers Given Discount**	88	471
5.	**No. of Residential Customers**	2,927	7,549
6.	**Percent Given Discount**	3.01%	6.24%
7.	**SSI Customers**	54	340
8.	**WV Works Customers**	12	37
9.	**Food Stamps +60 Customers**	22	94
10.	**Total Bills at Non-Discounted Rates**	$51,564.35	$180,751.45
11.	**Total Bills at Discounted Rates**	$41,251.49	$144,957.24
12.	**Revenue Decrease**	$10,312.86	$35,794.21
13.	**Adjustment For B&O Tax Reduction**	$442.42	$1,535.57
14.	**Revenue Deficiency Certified**	$9,870.44	$34,258.64

REPORT ON 20% DISCOUNT PROGRAM
FOR BILLING MONTHS OF -
DECEMBER 2011 THROUGH APRIL 2012

NATURAL GAS UTILITIES

		EQUITABLE GAS COMPANY	HOPE GAS, INC.
1.	Total Applications Received	411	4,263
2.	Total Applications Rejected	11	58
3.	Percent Rejected	2.68%	1.36%
4.	No. of Customers Given Discount	400	4,205
5.	No. of Residential Customers	12,131	105,086
6.	Percent Given Discount	3.30%	4.00%
7.	SSI Customers	260	2,921
8.	WV Works Customers	18	289
9.	Food Stamps +60 Customers	122	995
10.	Total Bills at Non-Discounted Rates	$201,469.40	$1,950,352.56
11.	Total Bills at Discounted Rates	$161,175.52	$1,560,597.24
12.	Revenue Decrease	$40,293.88	$389,755.32
13.	Adjustment For B&O Tax Reduction	$1,728.61	$16,720.50
14.	Revenue Deficiency Certified	$38,565.27	$373,034.82

REPORT ON 20% DISCOUNT PROGRAM
FOR BILLING MONTHS OF -
DECEMBER 2011 THROUGH APRIL 2012

NATURAL GAS UTILITIES

		LUMBERPORT-SHINNSTON GAS	MEGAN OIL & GAS
1.	Total Applications Received	108	24
2.	Total Applications Rejected	3	1
3.	Percent Rejected	2.78%	4.17%
4.	No. of Customers Given Discount	105	23
5.	No. of Residential Customers	2,901	276
6.	Percent Given Discount	3.62%	8.33%
7.	SSI Customers	68	18
8.	WV Works Customers	8	0
9.	Food Stamps +60 Customers	29	5
10.	Total Bills at Non-Discounted Rates	$61,361.07	$10,154.89
11.	Total Bills at Discounted Rates	$49,088.93	$8,123.92
12.	Revenue Decrease	$12,272.14	$2,030.97
13.	Adjustment For B&O Tax Reduction	$526.47	$87.13
14.	Revenue Deficiency Certified	$11,745.67	$1,943.84

REPORT ON 20% DISCOUNT PROGRAM
FOR BILLING MONTHS OF -
DECEMBER 2011 THROUGH APRIL 2012

NATURAL GAS UTILITIES

		MOUNTAINEER GAS COMPANY	SOUTHERN PUBLIC SERVICE CO.
1.	Total Applications Received	7,025	264
2.	Total Applications Rejected	12	0
3.	Percent Rejected	0.17%	0.00%
4.	No. of Customers Given Discount	7,013	264
5.	No. of Residential Customers	199,610	5,642
6.	Percent Given Discount	3.51%	4.68%
7.	SSI Customers	4,304	178
8.	WV Works Customers	733	29
9.	Food Stamps +60 Customers	1,976	57
10.	Total Bills at Non-Discounted Rates	$3,118,349.10	$98,748.80
11.	Total Bills at Discounted Rates	$2,494,679.28	$78,999.04
12.	Revenue Decrease	$623,669.82	$19,749.76
13.	Adjustment For B&O Tax Reduction	$26,755.44	$847.26
14.	Revenue Deficiency Certified	$596,914.38	$18,902.50

REPORT ON 20% DISCOUNT PROGRAM
FOR BILLING MONTHS OF -
DECEMBER 2011 THROUGH APRIL 2012

NATURAL GAS UTILITIES

		STANDARD GAS COMPANY	UNION OIL AND GAS CO.
1.	Total Applications Received	16	82
2.	Total Applications Rejected	0	3
3.	Percent Rejected	0.00%	3.66%
4.	No. of Customers Given Discount	16	79
5.	No. of Residential Customers	352	5,268
6.	Percent Given Discount	4.55%	1.50%
7.	SSI Customers	11	48
8.	WV Works Customers	2	10
9.	Food Stamps +60 Customers	3	21
10.	Total Bills at Non-Discounted Rates	$7,640.01	$26,475.35
11.	Total Bills at Discounted Rates	$6,112.50	$21,180.28
12.	Revenue Decrease	$1,527.51	$5,295.07
13.	Adjustment For B&O Tax Reduction	$65.53	$227.16
14.	Revenue Deficiency Certified	$1,461.98	$5,067.91

REPORT ON 20% DISCOUNT PROGRAM
FOR BILLING MONTHS OF -
DECEMBER 2011 THROUGH APRIL 2012

		SUMMARY DATA ELECTRIC UTILITIES		
		2011-2012	**2010-2011**	**Percentage Change from Previous Year**
1.	**Total Applications Received**	39,854	41,266	-3.54%
2.	**Total Applications Rejected**	3,505	4,498	-28.33%
3.	**Percent Rejected**	8.79%	10.90%	
4.	**No. of Customers Given Discount**	36,349	36,768	-1.15%
5.	**No. of Residential Customers**	854,793	853,915	0.10%
6.	**Percent Given Discount**	4.25%	4.31%	
7.	**SSI Customers**	23,720	24,474	-3.18%
8.	**WV Works Customers**	3,529	3,950	-11.93%
9.	**Food Stamps +60 Customers**	9,100	8,344	8.31%
10.	**Total Bills at Non-Discounted Rates**	$20,365,850.05	$22,244,175.15	-9.22%
11.	**Total Bills at Discounted Rates**	$16,292,680.04	$17,795,340.12	-9.22%
12.	**Revenue Decrease**	$4,073,170.01	$4,448,835.03	-9.22%
13.	**Adjustment For B&O Tax Reduction**	$0.00	$0.00	
14.	**Revenue Deficiency Certified**	$4,073,170.01	$4,448,835.03	-9.22%

REPORT ON 20% DISCOUNT PROGRAM
FOR BILLING MONTHS OF -
DECEMBER 2011 THROUGH APRIL 2012

		SUMMARY DATA GAS UTILITIES		
		2011-2012	**2010-2011**	**Percentage Change from Previous Year**
1.	**Total Applications Received**	12,760	13,236	-3.73%
2.	**Total Applications Rejected**	92	80	13.04%
3.	**Percent Rejected**	0.72%	0.60%	
4.	**No. of Customers Given Discount**	12,668	13,156	-3.85%
5.	**No. of Residential Customers**	341,993	339,695	0.67%
6.	**Percent Given Discount**	3.70%	3.87%	
7.	**SSI Customers**	8,203	8,508	-3.72%
8.	**WV Works Customers**	1,139	1,335	-17.21%
9.	**Food Stamps +60 Customers**	3,326	3,313	0.39%
10.	**Total Bills at Non-Discounted Rates**	$5,708,586.75	$7,015,427.48	-22.89%
11.	**Total Bills at Discounted Rates**	$4,567,541.25	$5,613,292.63	-22.90%
12.	**Revenue Decrease**	$1,141,045.50	$1,402,134.85	-22.88%
13.	**Adjustment For B&O Tax Reduction**	$48,950.85	$60,151.59	-22.88%
14.	**Revenue Deficiency Certified**	$1,092,094.65	$1,341,983.26	-22.88%

REPORT ON 20% DISCOUNT PROGRAM
FOR BILLING MONTHS OF -
DECEMBER 2011 THROUGH APRIL 2012

		SUMMARY DATA ALL UTILITIES		
		2011-2012	**2010-2011**	**Percentage Change from Previous Year**
1.	**Total Applications Received**	52,614 *	54,502 *	-3.59%
2.	**Total Applications Rejected**	3,597 *	4,578 *	-27.27%
3.	**Percent Rejected**	6.84%	8.40%	
4.	**No. of Customers Given Discount**	49,017 *	49,924 *	-1.85%
5.	**No. of Residential Customers**	1,196,786 *	1,193,610 *	0.27%
6.	**Percent Given Discount**	4.10%	4.18%	
7.	**SSI Customers**	31,923 *	32,982 *	-3.32%
8.	**WV Works Customers**	4,668 *	5,285 *	-13.22%
9.	**Food Stamps +60 Customers**	12,426 *	11,657 *	6.19%
10.	**Total Bills at Non-Discounted Rates**	$26,074,436.80	$29,259,602.63	-12.22%
11.	**Total Bills at Discounted Rates**	$20,860,221.29	$23,408,632.75	-12.22%
12.	**Revenue Decrease**	$5,214,215.51	$5,850,969.88	-12.21%
13.	**Adjustment For B&O Tax Reduction**	$48,950.85	$60,151.59	
14.	**Revenue Deficiency Certified**	$5,165,264.66	$5,790,818.29	-12.11%

* This number represents customers and not individual households. A household may be an electric and natural gas customer.

Appendix B

Summary of the Tel-Assistance Service Telephone Rate Discount Program

***

December 2012

Tel-Assistance Service, created by the West Virginia Legislature in 1986, provides reduced rates for qualified low-income residential customers of telephone utilities. Tel-Assistance customers receive a waiver of the monthly Federal subscriber line charge. The option of Tel-Assistance Service remains part of the filed residential tariffs of all of the local exchange telephone utilities and is therefore available to all eligible customers.

Eligible customers must be receiving either:

(a) Social Security Supplemental Security Income (SSI);
(b) WV Works, program previously called Aid to Families with Dependent Children (AFDC) and Temporary Aid to Needy Families (TANF);
(c) Medicaid;
(d) Federal Public Housing Assistance;
(e) Low Income Home Energy Assistance Program benefits (LIHEAP);
(f) Supplemental Nutrition Assistance Program (SNAP) if the recipient is age 60 or older, program previously called Food Stamps; and/or,
(g) Other income-related state or federal programs.

The telephone utilities may recover their certified revenue deficiency as a credit against the West Virginia telecommunications tax. Frontier, West Virginia Inc. and Citizens Telecommunications Company of West Virginia, doing business as Frontier Communications of West Virginia, were the only companies that filed Tel-Assistance Reports for Certification of Revenue Deficiency for 2011 (Cases No.12-0479-T-P and 12-0480-T-P). Telecommunications carriers other than Frontier and Citizens chose not to request certification of revenue deficiency.

The agreements or tariffs filed with the Commission for approval in accordance with the Tel-Assistance Program may specify the methodology by which the eligible telecommunications carrier calculates its annual revenue deficiency. Subject to prior approval by the Commission, eligible telecommunications carriers may agree to freeze or cap the amount of the revenue deficiency at specific levels.

On August 20, 2003 the Commission concluded in case 03-1363-T-T that for provision of the Tel-Assistance Program Verizon could freeze the revenue deficiency at the level approved for the 2002 tax year. Following the transfer of Verizon, West Virginia Inc. to Frontier, West Virginia Inc., Frontier adopted the tariff provisions in place at that time for Verizon. Accordingly, in Case No. 12-0480-T-P, the Commission certified $66,384.89 as the revenue deficiency for Frontier, West Virginia associated with the Tel-Assistance Program for the 2011 program year.

Likewise, on March 28, 2006 in Case No. 06-0256-T-T, the Commission concluded that Citizens Telecommunications Company of West Virginia, dba Frontier Communications could freeze the revenue deficiency at the level approved for 2004. Accordingly, in Case

No. 12-0479-T-P the Commission certified $19,603.80 as the revenue deficiency for Frontier associated with the Tel-Assistance Program for the 2011 program year.

On June 15, 2005, in Case No. 05-0888-T-T the Commission ordered all Eligible Telecommunications Carriers (ETCs), to file a report, on or before March 1 of each calendar year, detailing their provision of Tel-Assistance service during the previous calendar year. Each report must list the number of Tel-Assistance customers at the beginning and end of the year, as well as the total amount of federal and state discounts provided to Tel-Assistance recipients. During calendar year 2011, an average of 3,905 customers received assistance.

Appendix C

Electric Utilities
Supply – Demand Forecast
2013 - 2022

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January 2013

Executive Summary

The sixty-fourth Legislature (1979) directed the Public Service Commission of West Virginia (Commission) to make an annual report to the Legislature on the status of the supply and demand balance for the next ten years for the electric utilities in West Virginia (W. Va. Code § 24-1-1(d)(3)). Pursuant to that requirement, the Commission Staff conducts a yearly examination of long-term demand forecasts and resource plans of the major electric utilities in West Virginia. Staff evaluates the underlying assumptions and reasonableness of the forecasts and plans, and prepares the Annual Supply and Demand Balance Report required by the statute.

The four largest regulated electric utilities in West Virginia are Appalachian Power Company (APCo), Monongahela Power Company (Mon Power), The Potomac Edison Company (PE), and Wheeling Power Company (WPCo). APCo and Mon Power are the only regulated electric distribution utilities in the state that own and operate generation facilities. APCo and WPCo are sister companies in American Electric Power (AEP). Mon Power and PE are sister companies in FirstEnergy (FE). These four electric utilities account for approximately ninety-six percent of West Virginia residential sales and ninety-eight percent of West Virginia commercial and industrial sales. Although WPCo and PE do not generate electricity, they are combined with their respective sister companies, APCo and Mon Power, for West Virginia ratemaking purposes. For purposes of this report, APCo/WPCo are paired and a combined supply and demand balance is prepared based on their combined resource plans and projected demand. Mon Power/PE are similarly paired. Reference to APCo, includes the supply resources and load of WPCo, which operates only in West Virginia. Reference to Mon Power includes the load of the PE West Virginia operations.

Currently, there are five independent non-generation electric utilities in West Virginia purchasing power at wholesale that distribute purchased power to local residential, commercial and industrial customers at retail rates. Those are:

- Harrison Rural Electrification Association
- Black Diamond Power Company
- Craig-Botetourt Electric Cooperative
- New Martinsville Municipal Utilities
- Philippi Municipal Electric

These companies purchase their power supply requirements from various suppliers operating in the regional transmission area served by PJM Interconnection (PJM).[1] They have historically relied on medium to long-term contracts with wholesale providers, but they can also consider the availability of the PJM energy and demand markets when planning new contracts or contract renewals. As explained in our description of PJM at the end of this report, that organization manages the bulk-power transmission system and an extensive capacity and energy market that has become the total or partial source of power supply for many customers and load-serving entities in the PJM Region. The data also indicates that the generating utilities operating in West Virginia will increase their reliance on either the PJM markets or contracts with non-affiliates for some portion of their supply requirements in the future.

The Commission's Annual Supply-Demand Forecast is based primarily on a review of supply resource and load forecasts provided to this Commission by AEP and FE. The AEP and FE information includes a capacity (supply) plan also known as an integrated resource plan (IRP) that considers future demand requirements of customers and options for controlling or reducing demand. The plan then considers supply options to economically meet the future net demand requirements. The IRP includes projected equipment upgrades, rerating of plants, retirement of internal generation resources, additional internal generation resources, demand side resources, and purchased capacity, if needed. The Commission Staff (Staff) reviews the information and determines how the capacity resources compare to the projected loads and the extent to which the expected supply is sufficient to meet peak loads and still provide a reasonable reserve margin over the forecast period.

Both APCo and Mon Power have recently retired or plan to soon retire several older coal fired sub-critical generating units. The companies are considering alternatives to address their self-generation deficit including sales and purchases (transactions) of capacity in existing generating facilities within West Virginia. Both APCo and Mon Power recently filed petitions for the Commission's approval of these transactions. The transactions will also require review and final approval by the Federal Energy Regulatory Commission (FERC).

For the forecast period of summer 2013 through 2022, Staff concludes:

[1] PJM Interconnection LLC manages electricity energy and capacity markets and the transmission network covering a large portion of the Middle Atlantic and Midwest area. For a description of PJM Interconnection see Appendix A.

- Expected growth in annual peak electric demand will average approximately 1.0 percent.
- If the currently proposed purchases of additional generation units are approved for APCo and Mon Power, the utility-owned (internal) generation capacity will be greater than customer demand.
- Even with projected purchases of generation capacity, APCo will purchase capacity in the PJM market to meet its planned reserve margins.
- If the currently proposed purchases of additional generation capacity for APCo and Mon Power are not approved, both companies will require alternative capacity resources to meet customer demand.
- Given the time required to build new generation, alternative capacity resources will most likely be in the form of purchases in the PJM capacity market.

American Electric Power

Appalachian Power Company and Wheeling Power Company

APCo is the largest AEP subsidiary in terms of population served, number of customers and area of service territory of the operating companies that comprise the AEP East System (AEP East). The APCo service territory covers southern West Virginia and adjacent portions of Virginia. WPCo is solely a transmission and distribution company providing service in Marshall and Ohio Counties in the Northern Panhandle of West Virginia. WPCo has a power supply contract with an AEP affiliate, Ohio Power Company (OPCo). For rate regulation purposes in West Virginia, all operating costs, including power supply costs, of APCo and WPCo are combined and shared among APCo and WPCo customers.

APCo's current internal supply sources include coal-fired steam plants, natural gas-fired plants employing either combustion turbine technology or combined combustion turbine and steam technology (combined cycle), hydroelectric facilities and purchased power contracts with both affiliated and non-affiliated companies. Near-term changes in these supply sources include termination of a long-standing agreement with other AEP companies for capacity and energy purchases and expected retirements of existing APCo coal-fired capacity. As these near-term changes occur, APCo will have to look for alternative sources of capacity to meet its load requirements and provide a reserve margin.

Currently, the generating companies of AEP East continue to be parties to the AEP East Interconnection Agreement. Four AEP Western System (AEP West Zone) operating companies are parties to a separate Interconnection Agreement. While there are system integration agreements between AEP East and the AEP West Zone, there is no direct significant transfer capability between the zones, and the West Zone has a negligible effect on capacity planning for the AEP East Companies.

The AEP East Interconnection Agreement (Interconnection Agreement) includes five AEP subsidiary operating companies that are members of the interconnection and power supply pool. Each company is assigned a proportionate share of the combined generating capacity of pool members based on their peak demands. The sum of the proportionate shares will always equal the combined capacity of the five companies, but companies may own more (surplus company) or less (deficit company) generating resources than their proportionate share of the total. Under the Interconnection Agreement, if a company does not own sufficient capacity to meet its proportionate share requirement, it must pay those members that own excess capacity. The payments are calculated from a formula included in the Interconnection Agreement which includes a capacity rate that is based on the surplus company's average cost of capacity. APCo has been consistently deficient for purposes of the Interconnection Agreement and has paid OPCo and, at times, Indiana Michigan Power Company (I&M) for a portion of their surplus capacity. With these payments, APCo has been entitled to its proportionate share of the total AEP East capacity, which included sufficient capacity to meet internal demand requirements and provide a reserve margin. Under the agreement, APCo shared in the net profits achieved when the AEP East reserves could be sold to non-affiliated companies.

On December 17, 2010, each of the AEP Pool members gave written notice of intent to terminate the Interconnection Agreement effective January 1, 2014. On October 31, 2012, AEP filed a proposal with FERC regarding termination of the AEP Interconnection Agreement and the creation of a more limited three-company Power Coordination Agreement. Unlike the capacity allocation and payment provision of the Interconnection Agreement, the Power Coordination Agreement will require the member companies, APCo, I&M and Kentucky Power Company (KPCo) to individually own or contract for sufficient capacity to meet their load and reserve margin obligations.

AEP reports that the implementation of more stringent Environmental Protection Agency (EPA) standards applicable to power plants is expected to significantly increase the operating costs of APCo's fleet of sub-critical generation. APCo has determined that retrofitting each sub-critical unit with emission control equipment and incurring associated increased costs due to reduced operating efficiency is not economical. In view of their inability to comply with new standard without control upgrades, the Kanawha River plant, the APCo units at the Phillip Sporn plant, Glen Lyn Units 5, 6, and Clinch River Unit 3 are projected to be retired by January 1, 2015. APCo presently plans to maintain operations at Clinch River Units 1 and 2 after converting the units from coal to natural gas fuel sources.

Without the availability of capacity resources through the Interconnection Agreement, APCo's long term generation resource planning must focus on internal firm supply sources and market options. Without the capacity sharing provided by the Interconnection Agreement, APCo will not have sufficient internal capacity to meet its load and provide a reserve margin. Retirement of the older sub-critical generating plants in 2015 will further increase the APCo capacity deficiency and require more reliance on capacity and energy available from the PJM markets.

On December 18, 2012, APCo filed a petition with the Commission for consent and approval to acquire 1,647 MW of generating capacity owned by OPCo. The proposed acquisition is comprised of purchasing OPCo's two-thirds share of the John Amos Power Plant Unit 3 and 50 percent (one of two 800 MW units) of OPCo's Mitchell Plant. If APCo receives the necessary approvals to acquire additional internal generation resources, it will require less reliance on the PJM capacity market to serve its load and have sufficient reserve margins.

A summary of the planned capacity additions or reductions by APCo over the forecast period, and a summary of the combined projected capacity supply and demand for APCo and Wheeling is shown on the following tables. Without the acquisition of 1,647 MW of additional capacity, either as planned by the company or from alternative sources, APCo will not be able to meet its internal load after 2015. APCo will have a reserve margin if it acquires new capacity resources at the projected levels, but in order to achieve a reserve margin of fifteen percent of gross internal load before consideration of interruptible load or demand management load, additional capacity in the form of the purchase of 500 MW from the PJM capacity market beginning in 2015 is required.

Appalachian Power Company
Internal Capacity Additions or (Reductions) - 2013 through 2022

Year	Unit Retirements	Rerates of Existing Units	New Generation Capacity	Total Generation Capacity
	MW	MW	MW	MW
Dec 2012				6,996
2013				6,996
2014		36	1,647	8,679
2015	(1,245)	24		7,458
2016				7,458
2017				7,458
2018				7,458
2019		36		7,494
2020				7,494
2021				7,494
2022				7,494

Notes:

New generating capacity assumes acquisition of 2/3 of the John Amos power plant Unit 3 (867 MW) and one of the two 800 MW units at the Mitchell power plant. The capacity addition used for Mitchell assumes a derating of 20 MW in each of the units at the plant.

APCo projects availability of interruptible load and demand response load during the forecast period. This load is not included as capacity, but is used in this report to calculate net internal demand.

Appalachian Power Company
Projected Supply and Demand - 2012 through 2022 *

Year	Gross Internal Demand	Net Internal Demand **	Internal Generation Capacity ***	New Purchased Capacity	Total Supply	Reserve Margin Based on Gross Internal Demand		Reserve Margin Based on Net Demand	
	MW	MW	MW	MW	MW	MW	%	MW	%
2013	6,497	6,299	6,996		6,996	499	7.7%	697	11.1%
2014	6,789	6,523	8,679		8,679	1,890	27.8%	2,156	33.1%
2015	6,842	6,528	7,458	500	7,958	1,116	16.3%	1,430	21.9%
2016	6,878	6,496	7,458	500	7,958	1,080	15.7%	1,462	22.5%
2017	6,930	6,485	7,458	500	7,958	1,028	14.8%	1,473	22.7%
2018	6,993	6,531	7,458	500	7,958	965	13.8%	1,427	21.8%
2019	7,057	6,580	7,494	500	7,994	937	13.3%	1,414	21.5%
2020	7,113	6,621	7,494	500	7,994	881	12.4%	1,373	20.7%
2021	7,203	6,700	7,494	500	7,994	791	11.0%	1,294	19.3%
2022	7,272	6,760	7,494	500	7,994	722	9.9%	1,234	18.3%

Notes:

* Includes APCo total company resources and total demand in West Virginia (including WPCo) and Virginia.

** Gross internal demand less interruptible and demand response load.

*** Includes APCo owned generation and current firm long-term power contracts.

FirstEnergy Corporation

Monongahela Power Company and Potomac Edison Company

Monongahela Power Company (Mon Power) and The Potomac Edison Company (PE) are regulated subsidiaries of FirstEnergy Corp. (FE) in West Virginia. The long-term assessment of supply and demand includes the total current and future capacity resources owned or contracted by Mon Power, and the total load (demand) for all FE service territory in West Virginia (FE West Virginia load).

The current internal supply sources for Mon Power include coal-fired steam plants, hydroelectric facilities and purchased firm full-output power contracts. Near-term changes in these supply sources include retirements of existing Mon Power coal-fired capacity. The retirements will increase the Mon Power capacity deficiency, and the company will have to look for alternative sources of capacity to meet its load requirements and provide a reserve margin.

The future capacity for Mon Power excludes 408 net-available MW of coal-fired sub-critical generating units at the Albright, Willow Island and Rivesville Power Stations. Mon Power did not own or contract for sufficient internal capacity to serve the FE West Virginia load prior to retiring these power plants. The shortfall was made up through purchases of capacity and energy from the PJM markets. The long-term forecast demonstrates that the internal supply shortfall is increased by the retirements and will continue throughout the forecast period unless additional internal supply resources are acquired by Mon Power. Absent such acquisition, either through ownership or firm contracts, the FE West Virginia load will continue to be met through a combination of declining Mon Power internal supply resources and increasing reliance on the PJM energy and capacity markets.

At present there is an FE proposed plan which has been filed for consideration and approval with this Commission and with the FERC that would result in a transfer of generation assets among FE companies. The proposed transactions result in a substantial net gain in capacity for Mon Power. The proposal calls for Mon Power to sell its 7.7 percent ownership in the Pleasants Power Station and to purchase the portion of the Harrison Power Station currently owned by Allegheny Energy Supply Company. Mon Power currently owns approximately 20.5 percent of the Harrison Power Station and the proposed transaction will result in acquisition of the remaining 79.5 percent, giving Mon Power 100 percent ownership of the power plant.

If the generation plant transfers are approved by the Commission and FERC, Mon Power would have a net increase of generation capacity of 1,189 MW, eliminating its need to acquire energy or capacity from the PJM markets during most of the forecast period.

Unlike APCo, Mon Power does not have interruptible load and it has not included any demand side resources in its capacity plans. The company does have programs in place that are expected to provide modest demand response and are designed to reduce demand by approximately one-half of one percent. Because its demand side programs are new and actual impacts are not known, the company does not plan for demand side resources or measurable demand reductions over the forecast period. The Staff believes that customer responses to demand side programs will occur and that additional demand reducing and demand response load will occur over the forecast period. For purposes of this report, Staff believes that even the modest level projected for the current Mon Power programs should be reflected in the supply demand balance data. Staff has projected achieving the targeted one-half of one percent reductions in demand within three years and continued that rate of demand response over the remainder of the forecast period. Staff does not present the demand side resources as capacity resources, but the study data reflect the company demand data on a gross basis and net of demand reductions anticipated for the demand side programs.

A summary of the planned capacity additions or reductions by Mon Power over the forecast period, and a summary of the combined projected capacity supply and demand for Mon Power and other FE West Virginia load is shown on the following tables. Without the acquisition of 1,189 MW internal capacity, either as planned by the company or from alternative sources, Mon Power will not be able to meet its internal load. If it acquires the projected level of capacity, Mon Power will meet its load requirements and have a reserve margin in excess of fifteen percent during most of the forecast period.

Monongahela Power Company Internal Capacity Additions or (Reductions) - 2013 through 2022				
Year	Unit Retirements	Rerates of Existing Units	New Generation Capacity	Total Generation Capacity
	MW	MW	MW	MW
Dec 2012				2,492
2013	(409)		1,189	3,272
2014				3,272
2015				3,272
2016				3,272
2017				3,272
2018				3,272
2019				3,272
2020				3,272
2021				3,272
2022				3,272

Notes:

New generating capacity assumes acquisition of 100 percent of the Harrison Power Station and sale of Mon Power current share of the Pleasants Power Station.

Commission staff has included availability of limited demand reducing load during the forecast period. This load is not included as capacity, but is used in this report to calculate net internal demand.

Monongahela Power Company									
Projected Supply and Demand - 2012 through 2022 *									
Year	Gross Internal Demand	Net Internal Demand **	Internal Generation Capacity ***	New Purchased Capacity	Total Supply	Reserve Margin Based on Gross Internal Demand		Reserve Margin Based on Net Demand	
	MW	MW	MW	MW	MW	MW	%	MW	%
2013	2,620	2,616	3,272		3,272	652	24.9%	656	25.1%
2014	2,714	2,705	3,272		3,272	558	20.6%	567	21.0%
2015	2,750	2,736	3,272		3,272	522	19.0%	536	19.6%
2016	2,784	2,765	3,272		3,272	488	17.5%	507	18.3%
2017	2,799	2,776	3,272		3,272	473	16.9%	496	17.9%
2018	2,822	2,794	3,272		3,272	450	15.9%	478	17.1%
2019	2,845	2,812	3,272		3,272	427	15.0%	460	16.4%
2020	2,872	2,834	3,272		3,272	400	13.9%	438	15.5%
2021	2,891	2,848	3,272		3,272	381	13.2%	424	14.9%
2022	2,916	2,867	3,272		3,272	356	12.2%	405	14.1%
Notes:									
*	Includes Mon Power total resources. Demand includes Mon Power and PE West Virginia load.								
**	Gross internal demand less demand response load.								
***	Includes Mon Power owned generation and current firm long-term power contracts.								

Conclusion

The major generation owning electric utility systems in West Virginia will experience low or negative reserve margins during the forecast period. A major contributing factor for this declining supply balance is a reduction in utility-owned capacity resulting from the closure of older sub-critical coal fired generation plants. Cancellation of long-standing capacity agreements with affiliates is another contributing factor.

The major generation owning electric utilities will have to acquire additional capacity resources to meet their customer demand requirements in most years of the forecast period. Additional increments will be needed to meet the reserve capacity margin requirement in PJM, which is presently 15.4 percent.

APCo and Mon Power each have plans to increase owned generation capacity, but these plans require approval of the Commission and the FERC. Even if the APCo plan is approved, APCo will still be deficient in meeting its reserve margin requirements. APCo has no plans to build new capacity or seek long-term contracts to meet its requirements. Its chosen alternative is to purchase additional capacity in the PJM capacity market beginning in 2015. Mon Power will be close to its required reserve margin if it acquires the level of generation resources embodied in its current plan, but limited amounts of PJM capacity may be needed by Mon Power in the later years of the forecast period.

If additional generation resources are not acquired by APCo and Mon Power, it is likely that they will be able to meet their needs, including reserve requirements, by purchasing capacity in the PJM market. Although this is not the traditional model for the major West Virginia electric utilities, the availability of capacity and energy in the PJM market is expected, and PJM has processes in place to reasonably assure adequate supply resources in its service area.

PJM Interconnection LLC

PJM Interconnection (PJM) is a regional transmission organization (RTO) that operates the transmission grid delivering power in all or parts of Illinois, Michigan, Indiana, Ohio, Kentucky, Tennessee, North Carolina, Virginia, West Virginia, Maryland, the District of Columbia, Pennsylvania, Delaware, and New Jersey. The grid is made up of the major transmission facilities owned by a large number of integrated electricity utilities, transmission companies spun off from former integrated electric utilities and new transmission companies. These transmission owners have turned over the operation of their interconnected transmission lines to PJM. As the grid operator, PJM conducts ongoing long-term regional planning that projects load within the system. Based on overall absolute load levels and the geographic locations of the load increases or decreases, PJM evaluates potential locational transmission bottlenecks and reliability issues. The end result of the evaluation and planning process is the identification of transmission upgrades and new construction necessary to ensure the ability to reliably deliver power currently and over the long-term planning horizon. PJM notifies the transmission owners of the need for system upgrades and the transmission companies are responsible for installing the necessary upgrades and new transmission lines.

PJM also operates a competitive wholesale electricity energy market within the region served by the transmission facilities under its control. Generation providers can bid their production volumes and minimum prices for delivery into the market on the next day and load-serving entities bid their load requirements and prices they are willing to pay the market on the next day (day-ahead market). PJM matches generation and requirements on a regional and locational basis and determines the price at which power will enter the market. The market price for power can vary based on location and on an hourly basis. In addition, PJM also manages a real-time power market to price power necessary to serve loads that were not covered through the day-ahead market commitments.

In addition to hourly day-ahead and real-time energy markets, PJM operates a capacity market. The capacity market is based on the PJM long-term Reliability Pricing Model (RPM). PJM receives bids for long-term capacity from suppliers and, based on the bidding process, develops the prices that will be paid for future capacity. By going to a longer-term RPM, PJM provides price signals to capacity suppliers and load.

The RPM takes into consideration the continued use of self-supply and bilateral contracts by load-serving entities. The capacity auctions obtain the remaining capacity that is needed after market participants have committed the resources they will supply themselves or provide through contracts.

Appendix D

Gas Utilities
Supply – Demand Forecast
2013 - 2022

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January 2013

Executive Summary

This Report presents general information regarding the current natural gas supply and demand conditions in West Virginia as well as future natural gas supply and demand over the 2013-2022 period in West Virginia. Information sources for natural gas oriented government agencies, industry groups and other organizations are provided at the end of this report. Those organizations include the Federal Energy Information Administration (EIA), the Colorado School of Mines Potential Gas Committee, the American Gas Association (AGA), and the Natural Gas Price Outlook from Energy Solutions, Inc., among others.

This Report is prepared and submitted by the Public Service Commission of West Virginia (Commission) in response to a Legislative mandate and is part of a comprehensive Management Summary Report that is also submitted annually to the West Virginia Legislature.

The sixty-fourth West Virginia Legislature (1979) stated in West Virginia Code §24-1-1(d)(3) that the Commission shall, as part of an Annual Management Summary Report, describe in a concise manner "the current balance of supply and demand for natural gas and electric utility services in the State and forecast the probable balance for the next ten years."

Prior to 1979, and for several years thereafter, the wholesale price of natural gas was regulated and capped by the Federal Government. There was some concern at that time that suppliers of natural gas were reluctant to produce and market their supplies and that exploration for new supplies was somewhat curtailed because what some believed to be artificially low and unprofitable wholesale prices. Language following the above-quoted Code Section indicates that the Legislature was concerned about these factors and was interested in learning more about the natural gas production industry in West Virginia and what role the Legislature might play in it.

Prior to the passage of the Federal Natural Gas Policy Act of 1978 (NGPA), the natural gas market was experiencing production shortages that many believed were a direct result of federal price controls. The NGPA addressed the situation by devising a schedule of price decontrol over time, reducing barriers between interstate and intrastate markets, and providing incentives for gas exploration and development. Today, wholesale natural gas prices are market driven and are subject to various market forces, much like the prices of any other publicly-traded commodity.

West Virginia is a major gas producing state and exports far more gas than it consumes. This Report focuses on the physical availability of supplies of natural gas and the outlook for the next ten years. Based on recent developments of "unconventional" natural gas reserves in the Appalachian Basin and elsewhere in the United States, there appears to be more than an ample supply for the coming decade and beyond. In the back of this report are several resources that support this belief.

The demand portion of the Report will set out basic information provided by the major natural gas public utilities in the State, and will show that the demand of all customers' classes is essentially flat for the next ten years, as it has generally been for the past two decades or so.

Also included in this year's Report, in contrast to previous years, are some concerns regarding peripheral issues related to general supply and demand and some more localized concerns that certain trends call to attention.

Comment on Original Reasons for Report and the Current Situation

Language in West Virginia Code §24-1-1(d)(3) indicates that the Legislature was interested in the gas industry as it existed and operated in the early to late 1970's and into the early 1980's. Prior to the passage of the NGPA in 1978, and for the first few years afterward, natural gas prices at the wellhead were regulated with a maximum allowable price. As production costs escalated with inflation, the producers saw their profits decrease to the point that it was no longer attractive to investors and owners to drill new wells or, in some situations, continue to produce wells that had already been put into production, therefore, increasing the Legislative interest in shut-in wells. The situation became so severe that there were moratoria put into place restricting the addition of new distribution customers essentially nationwide. This resulted in an increase of all-electric housing and businesses expanding in metropolitan areas of the country. The Industrial Fuel Use Act of 1978 was enacted, which dictated the allowable uses of natural gas by industry. The use of natural gas in industrial boilers, including for the generation of electricity, was not allowed. This led to conversion of boilers to fuel oil and reduced natural gas use in industrial boilers.

The Natural Gas Utilization Act of 1987 repealed much of the Fuel Use Act at about the same time wellhead prices became fully deregulated under the NGPA, and the commodity began trading on a national market basis. Both supply and demand, as well as prices, rose significantly. These actions greatly reduced concerns over adequate supplies in the near term.

After about 2007, by all measures, huge new supplies of gas are becoming available and recoverable because advances in horizontal drilling technology and economic feasibility, with the accompanying hydraulic fracturing process. Although there are some issues with the practice that remain to be addressed, the vast majority of experts in the industry and regulatory world expect the practice to continue and become even more efficient and productive. Estimates by industry, government and academia show there is more than ample supply for the long term, with most saying there is a hundred years or more of recoverable supply in North America. The abundance has driven the price of natural gas to near record low levels as compared to prices over the last twenty-five years. There is a large increase in the use of gas for electric generation and other industrial uses, and there are plans to begin exporting liquefied natural gas to other countries.

Because of the dramatic changes in the industry (which are mirrored by production and consumption activities in the Appalachian Region and West Virginia), the Commission has also decided to include the current status of a robust natural gas supply market as opposed to limiting our discussion to the supply side concerns of forty years ago.

Marcellus Shale Impact on Supply

The feasibility of extracting natural gas from the Marcellus Shale formation in the Appalachian Region has resulted in increased drilling and production activity in West Virginia over the past six years. This gas has long been known to exist in the formation, but until improvements in horizontal drilling capabilities were made the resource was not attractive to producers and consumers. After 2006, the supply has grown to the extent of driving wellhead prices down to a level where new drilling is slowing. Recently, production activities have shifted to oil bearing formations, most notably the Utica Shale that is predominately in Ohio, and to “wet” gas zones in the Marcellus formation. This shift in production activities may slow, but will not eliminate, production of natural gas from non-traditional formations. As producers develop oil bearing formations, gas which coexists with the oil, must also be produced.

Because demand has not kept up with supply, there is currently activity aimed at preparing to export liquefied natural gas from the United States to foreign markets. There is also increased activity to encourage the use of compressed natural gas as vehicular fuel. Because of the low prices and environmental regulatory actions regarding air quality, natural gas use for electric generation is increasing dramatically. Despite all these demand increases there remains expectations of some increases in price as compared to the recent extreme lows, but prices will still remain relatively low. In its Short-Term Energy Outlook, released January 8, 2013, the U.S. Energy Information Administration (EIA) indicated that it expects prices to gradually rise through 2014, but still remain relatively low. EIA expects the Henry Hub price will average $3.74 per MMBtu in 2013 (compared to $2.75 per MMBtu in 2012) and $3.90 per MMBtu in 2014.

Local and Regional Concerns

The Marcellus drilling activity is creating some concerns on the supply side in terms of what is happening to conventional local production supplies and the midstream gathering pipelines that carry it, as well as some interstate pipelines upon which local distribution companies rely for supply deliveries.

There are several issues for consideration. Much of the Marcellus gas is “wet” and contains high levels of heavier hydrocarbons and water vapor. Higher pressures are being used in existing and new pipelines carrying Marcellus gas. Existing conventional production is declining and new conventional drilling is slowing as producers focus on what is perceived to be the more lucrative Marcellus production.

“Wet” gas has special handling and treatment needs. The heavier hydrocarbons, such as propane, butane, ethane, etc., cause the gas to have significantly higher Btu content, which is sometimes not tolerated well, or is even unusable, in today’s modern high efficiency appliances. This requires more stripping to make the gas useable in normal consumer gas using appliances. Because the hydrocarbons often condense out of the gas and collect in the pipelines and other gas handling equipment, the pipelines must be cleaned frequently. This causes planned and occasional unplanned outages. Drier gas from conventional production fields is more likely to be useable by customers upstream of drying facilities. Marcellus gas customers along the gathering pipelines and transmission upstream of compression and drying equipment must take precautions to accommodate the wetter gas and may even have to abandon their traditional field-line quality sources of supply.

Continued availability of natural gas to many rural customers may also be affected by the higher pressures typically used in pipelines transporting Marcellus gas to facilitate the production and transportation of much higher gas volumes. Producers and transporters are reluctant to allow customers on higher pressure pipelines for liability and operational reasons. Additional pressure regulating equipment may be necessary at a substantial cost.

Conventional production from existing wells is declining in some areas of the state as producers focus on the higher value Marcellus production. Many of the conventional wells are marginal producers and are not worth reworking or even maintaining. As a result, those wells are left to produce what they can in their remaining life and then are capped and eventually plugged. Volumes in field lines from those depleting existing wells will be reduced and pipelines will be increasingly in danger of being abandoned. This is having, and will continue to have, the effect of local pockets of field line customers. In some distribution areas served by Local Distribution Companies, they are in danger of losing access to sufficient quantities of gas. Additionally, large amounts of capital, that would normally be used to fund new conventional drilling, are being redirected to the Marcellus and other shale formations, leaving conventional gas in the ground in various parts of the state, primarily Southern West Virginia.

One other area of concern is the uncertainty regarding governmental actions that will likely affect hydraulic fracturing (fracking). Even after there is a complete review of fracking by the EPA, there will likely be continued opposition to fracking. Although the EPA has been studying fracking, the studies will likely continue through 2013 and into 2014. In the meantime, there will be continuing outcry by many groups concerned that fracking can impact water supply sources. In December 2012, the EPA issued a “progress report” on its detailed, multifaceted study that includes data gathered from hundreds of natural gas and oil wells across the U.S. In its progress report, the EPA listed major areas of the fracking water cycle that it is studying. They include the impact of large water supply withdrawals to provide the fracking water; the possible impacts of surface spills on drinking-water sources; the effects of injection and the fracturing process on drinking-water supplies; how fracking wastewater could affect water supplies; and the possible effects of inadequate treatment of fracking wastewater. The EPA study is expected to be completed in 2014.

Natural Gas Utility Positions

As with past years' Reports, the largest natural gas utilities operating in the State were surveyed and asked for information regarding their long-term (ten year) supply and demand projections. Their responses show that very little change is expected in demand over what was reported last year. However, two disclaimers should be noted. First, electric generation operators are studying the economic and environmental feasibility of either switching to natural gas as the sole fuel or using some combination of natural gas and coal in existing plants. They are also factoring in the use of natural gas in planning new generation plants. Second, is the possibility of using more natural gas as feedstock for the production of ethane and other byproducts, which would in turn be used primarily for chemical manufacturing. This activity is in the early to mid-stages of study, and it is not certain whether the suppliers would be the public gas utilities or some other entities in the private gas industry. At this point, it is difficult to estimate (or guess) what volumes would be involved in these activities and therefore, this Report will only state that the utilities support the use of basically flat numbers in their demand forecasts for the next ten years. These issues will be addressed in future reports when further developments emerge.

Conclusion

Based on the information reviewed by the Commission Staff, the United States and West Virginia appear to have more than sufficient supplies of natural gas available to meet demand for the next ten years (2013-2022) and well beyond. The State's natural gas utilities predict ample supplies for their systems and, at this point in time, basically flat demand for the coming decade, although they are keeping a watchful eye on possible developments in the electric and chemical industries for what could be very large increases in demand. Though system upgrades would be necessary if this occurs, there is high confidence that the available supply will be more than enough to meet that demand.

References and Additional Information

Federal Government:

- National Petroleum Council (NPC)
  Balancing Natural Gas Policy (2003) www.npc.org

- Energy Information Administration (EIA) http://www.eia.gov/naturalgas/

Producers:

- Natural Gas Supply Association (NGSA)Winter Outlook www.ngsa.org

Interstate Pipelines:

- Interstate Natural Gas Association of America (INGA) www.ingaa.org

Local Distribution Companies:

- American Gas Association (AGA) www.aga.org

Research:

- National Regulatory Research Institute (NRRI) www.nrri.org

- Colorado School of Mines Potential Gas Committee www.potentialgas.org

- Natural Gas Price Outlook www.naturalgasoutlook.com