

WV Industrial & Manufacturing Customers: The Lost Electric Advantage

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(Governor's Energy Summit)

*West Virginia Energy Users Group
Spilman Thomas & Battle, PLLC*

WVEUG

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

Current Membership

2017 Members of WVEUG:

- ArcelorMittal USA LLC
- Argos-US
- The Chemours Company
- Constellium - Ravenswood
- GrafTech Adv. Graphite Materials LLC
- Linde LLC
- Marathon Petroleum
- Novelis Corporation
- Quad/Graphics, Inc.
- Resolute Forest Products
- U.S. Silica Company
- West Virginia Manufacturing
- Westlake – Axiall/Sodium
- Weyerhaeuser NR
- Zoetis Products LLC

Today's Electric Rate Context for WV

- The PSC regulates electric rates – traditional regulation
- Large users (industrial and manufacturing companies) must purchase electricity from the regulated utilities
 - FirstEnergy: Monongahela Power Company and The Potomac Edison Company
 - American Electric Power: Appalachian Power Company and Wheeling Power Company
- In exchange for obligation to serve, utilities get a monopoly and authorized return (approx. 10%)
- Customers get "just and reasonable" regulated rates

Today's Electric Rate Context for WV

- Circa 2000, WV declined to pursue "customer choice"
- Utility motivations have changed in last 15 years
 - Financial performance for capital markets is paramount
 - Legislative ratemaking → risk shifting
- Wholesale power market has changed in the last 15 years
 - "Shale Gas Revolution" changed wholesale pricing
 - Perverse outcomes can result for captive WV ratepayers due to the PJM market
- Rates have doubled!

Today's Electric Rate Context For WV

- *Why have rates increased?*
 1. Coal prices increased middle of last decade, plus regulatory compliance costs: CAA Phase II; MATS; CSAPR; NAAQS; CCR Rule; Carbon Regulations → ratepayers bear these utility costs
 2. Decreased natural gas prices/"unregulated" plants moved to wholesale market → regulated plants remain ratepayer burden
 3. Legislative ratemaking → surcharge recovery shifts risk/accelerates utility cost recovery from ratepayers
 4. Decreased demand/usage results in higher costs being spread over fewer billing units → spiraling increases for customers that remain

Today's Electric Rate Context For WV

- PJM Price Impacts:
 - Lower PJM/wholesale market prices can harm West Virginia ratepayers
 - Market capacity prices can be lower than the utilities' cost to operate their generation plants (ratepayers pay difference)
 - Market energy prices are lower, but that means the value of utility's excess power sales/credits are lower for ratepayers

Today's Electric Rate Context For WV

- *But isn't West Virginia a net exporter of power?*
 - WV is fourth largest net energy supplier per EIA
 - It is not relevant to regulated retail rates in West Virginia
 - Less than 1/2 of West Virginia's generation is dedicated to retail ratepayers in West Virginia (subject to regulated rate recovery, not wholesale market pricing)
- Captive ratepayers pay the cost of production for utility-owned regulated generation, including coal-fired plants
- Competitive WV Wholesale generators have no obligation (or ability) to serve/provide benefit to WV ratepayers

WV Industrial Electric Rates: Under Siege in the Last Decade

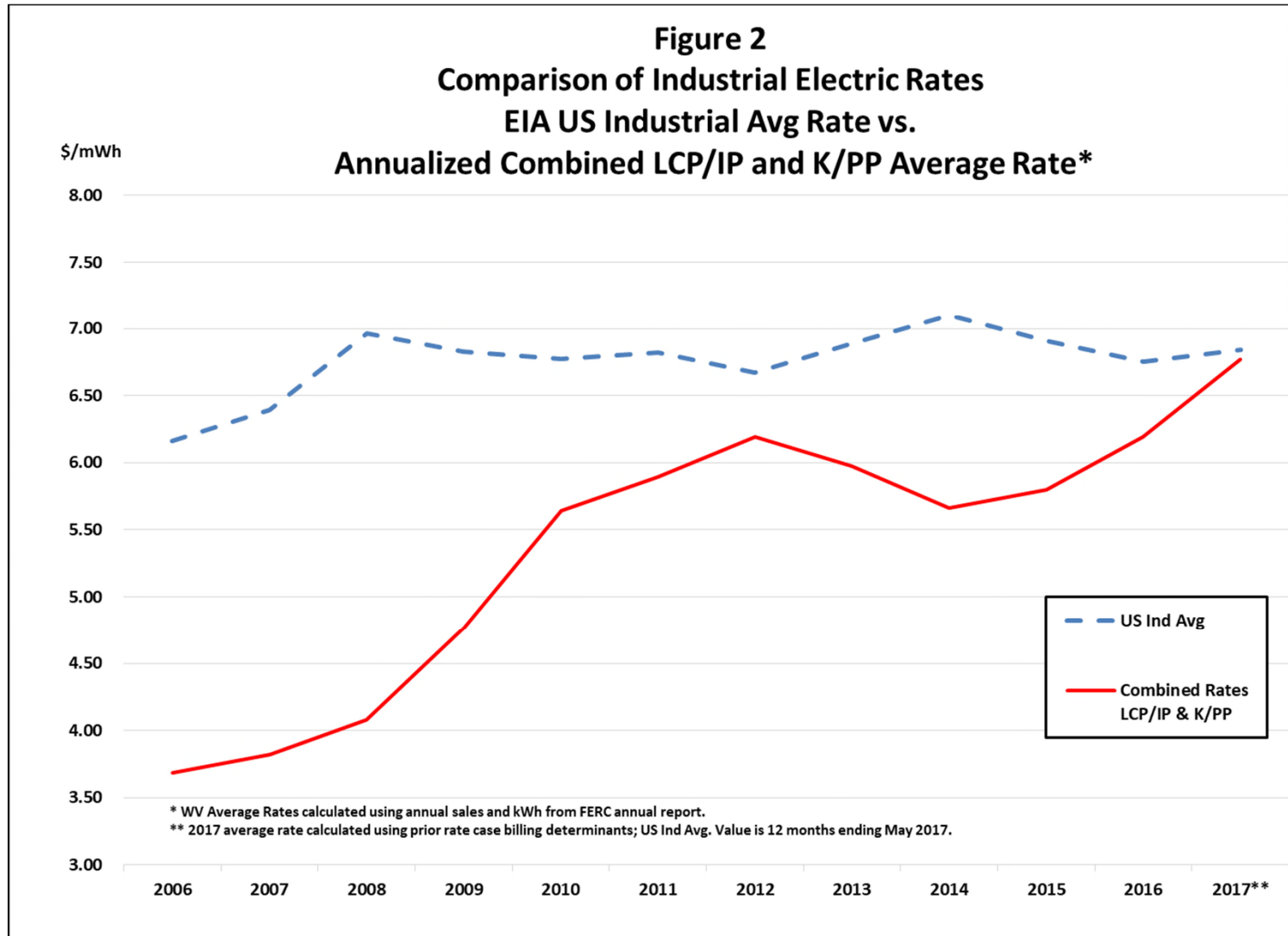
- Large C&I customers served by AEP (APCo/WPCo) have experienced increases in rates of about **100%**
- Large C&I customers served by FirstEnergy (Mon Power/PE) have incurred rate increases of almost **80%**
- For the period June 2007 to June 2016, West Virginia's electric rates increased on a percentage basis more than any other state and the District of Columbia (per EIA data collated by Missouri Senate, Division of Research)
- WV's manufacturing jobs decreased by nearly 25% from 2007 to 2017

WV Industrial Electric Rates: Under Siege in the Last Decade

- West Virginia's average industrial electric rates now rank 25th among the 50 states (per EIA data; Table 5.6.B., Sep. 2017 release) – used to be a "top 5" lowest rate
- West Virginia's average industrial rate of 6.71¹ cents per kWh is middle of the pack
- Per EIA, states with average industrial rates lower than West Virginia's include Ohio, Kentucky, Virginia, and NEW YORK!

¹ [6.75¢/kWh average AEP and FE industrial tariffs]

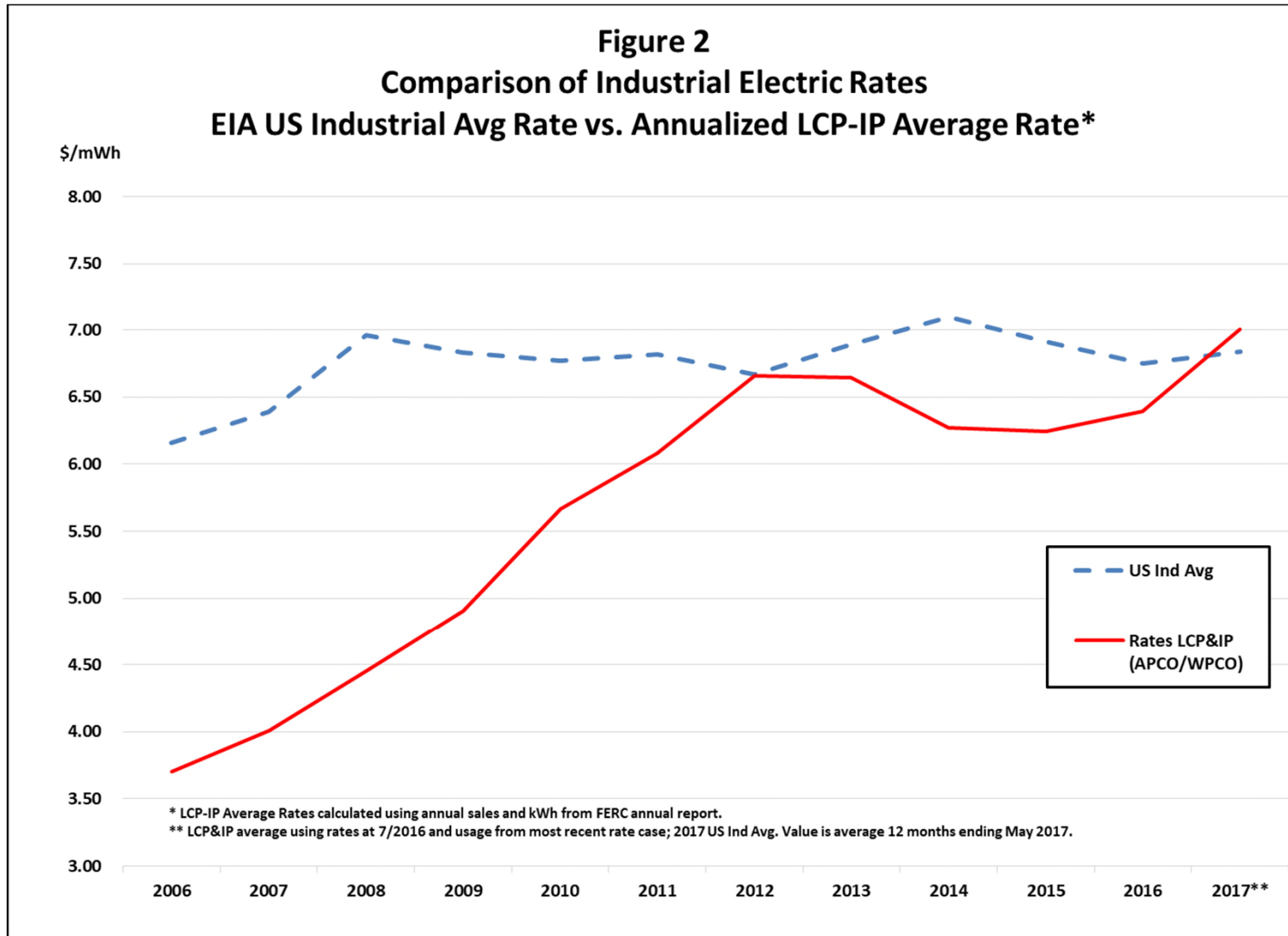
WV Industrial Electric Rates: Under Siege in the Last Decade



WV Industrial Electric Rates: Under Siege in the Last Decade

- American Electric Power's affiliates have an average "LCP/IP" industrial tariff rate of 7 cents/kWh
- This average tariff rate would rank 27th among the 50 states (EIA, Table 5.6.B.)
- This average tariff rate is higher than the average industrial rates in all surrounding states, except Maryland (EIA, Tables 5.6.A. and 5.6.B.)

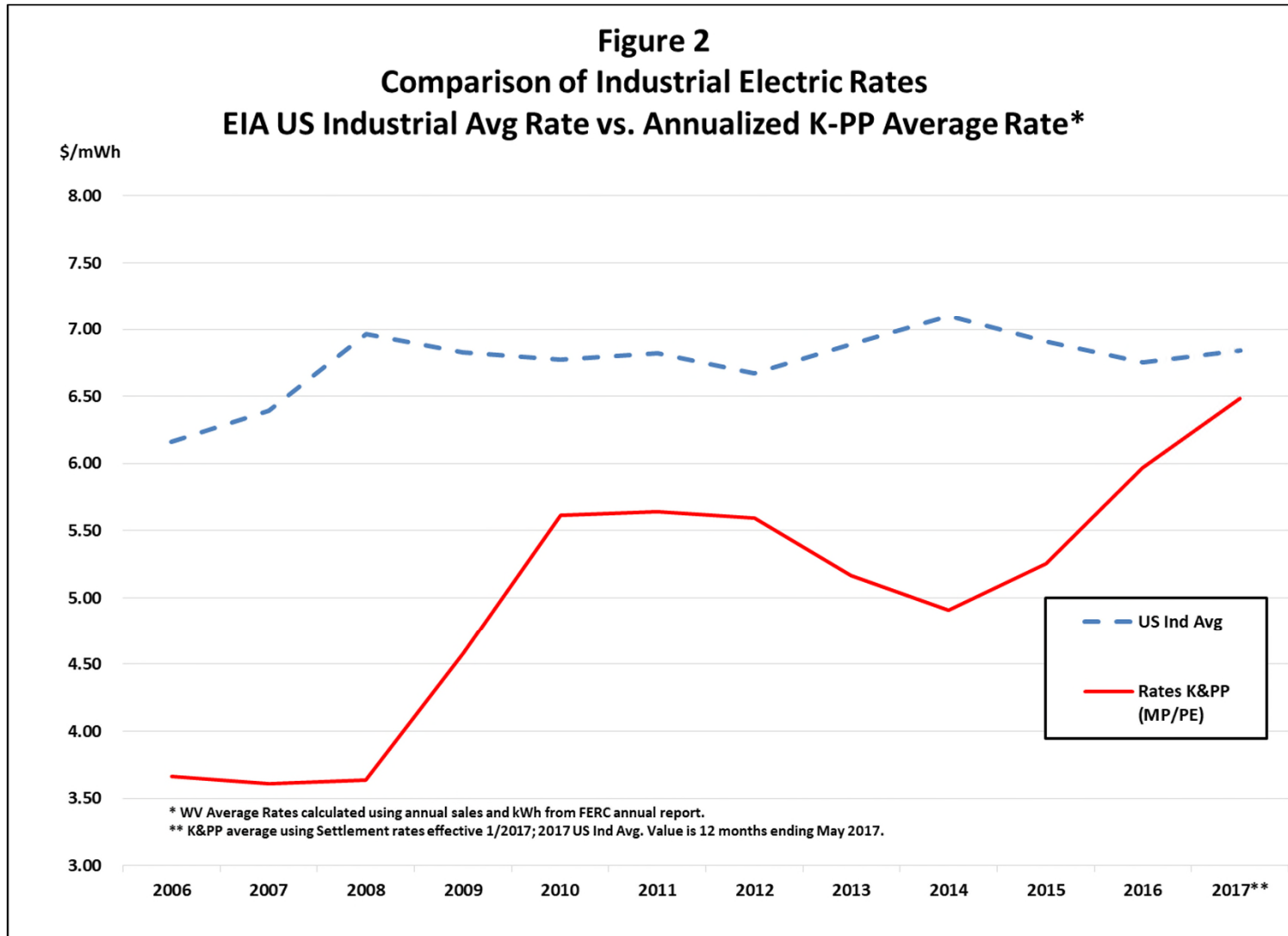
WV Industrial Electric Rates: Under Siege in the Last Decade



WV Industrial Electric Rates: Under Siege in the Last Decade

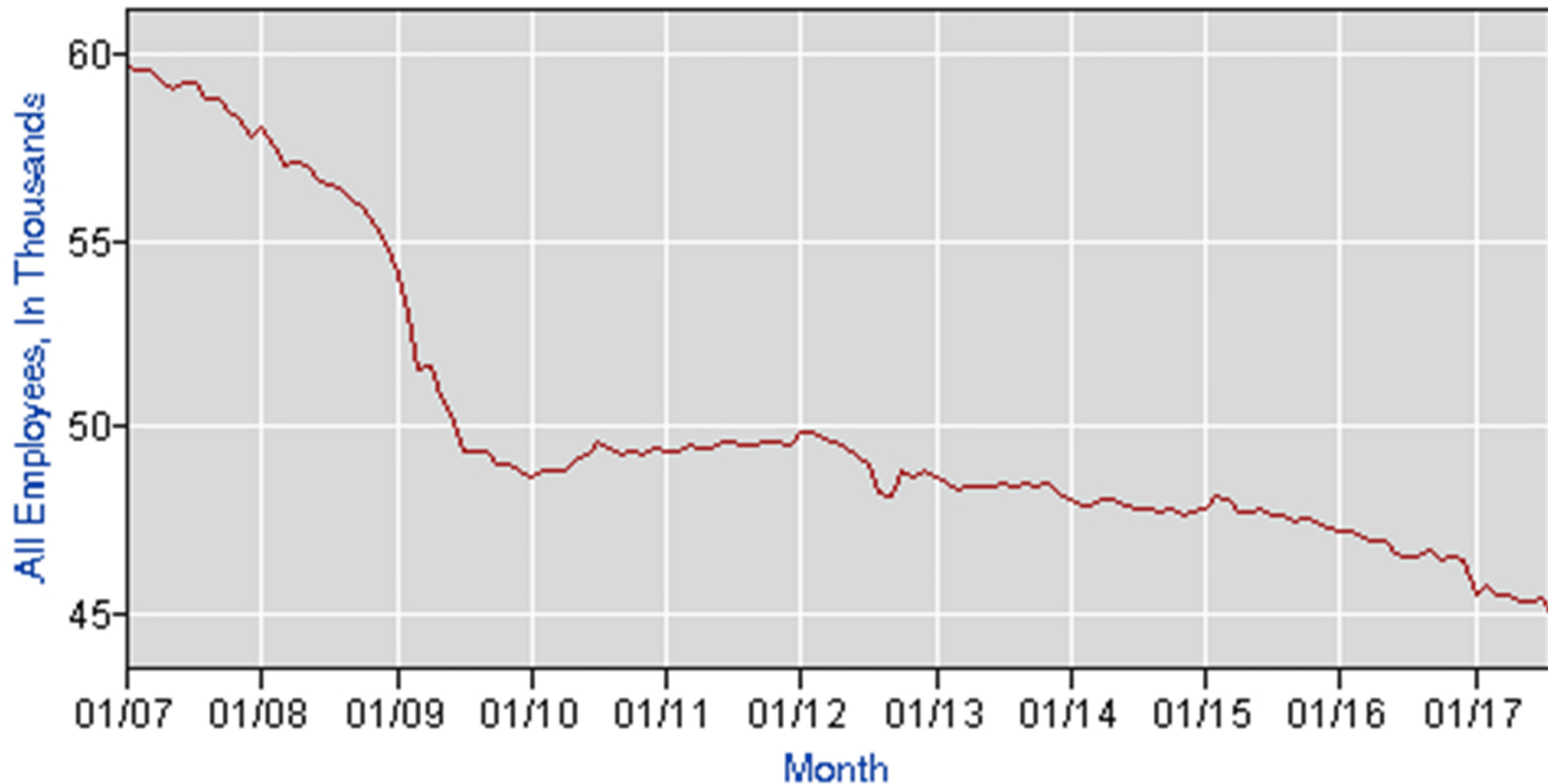
- FirstEnergy Corporation's affiliates have an average "K/PP" industrial tariff rate of 6.50 cents per kWh
- This average tariff rate would rank 22nd among the 50 states (EIA, Table 5.6.B.)
- This average tariff rate is higher than the average industrial rates in Kentucky, New York, and Tennessee

WV Industrial Electric Rates: Under Siege in the Last Decade



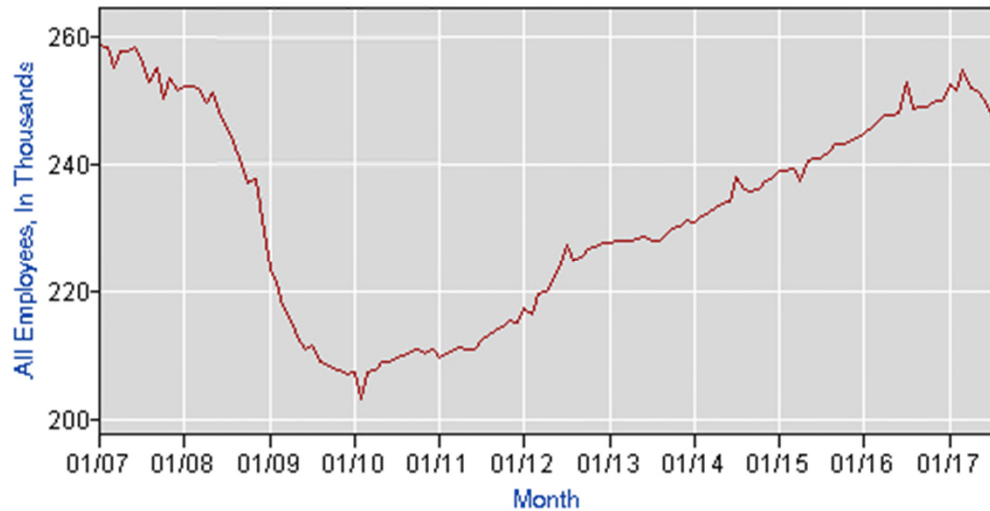
WV Industrial Electric Rates: Under Siege in the Last Decade

- WV Manufacturing Job Loss:

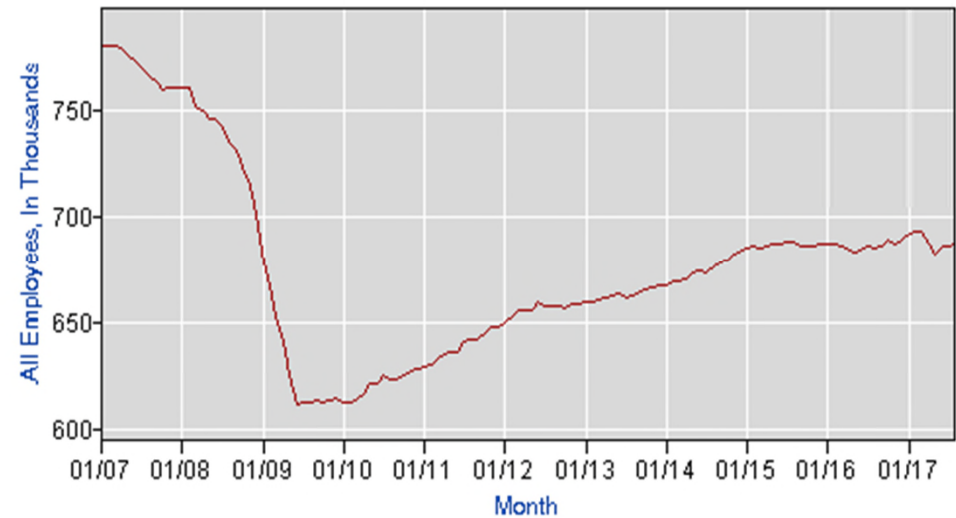


WV Industrial Electric Rates: Under Siege in the Last Decade

- KY Manufacturing Job Loss:

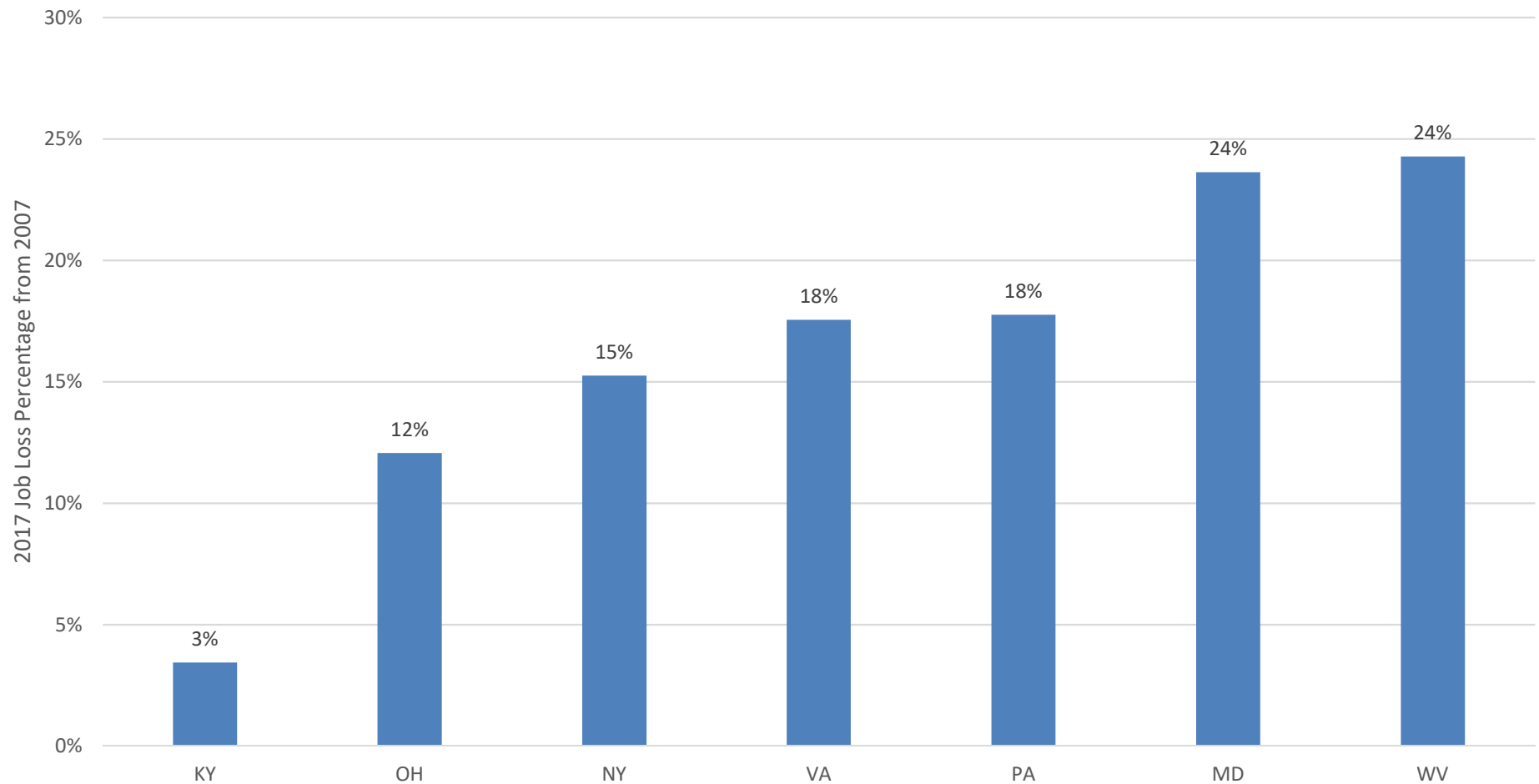


- OH Manufacturing Job Loss:



WV Industrial Electric Rates: Under Siege in the Last Decade

Manufacturing Sector Job Loss by State, 2007 to 2017

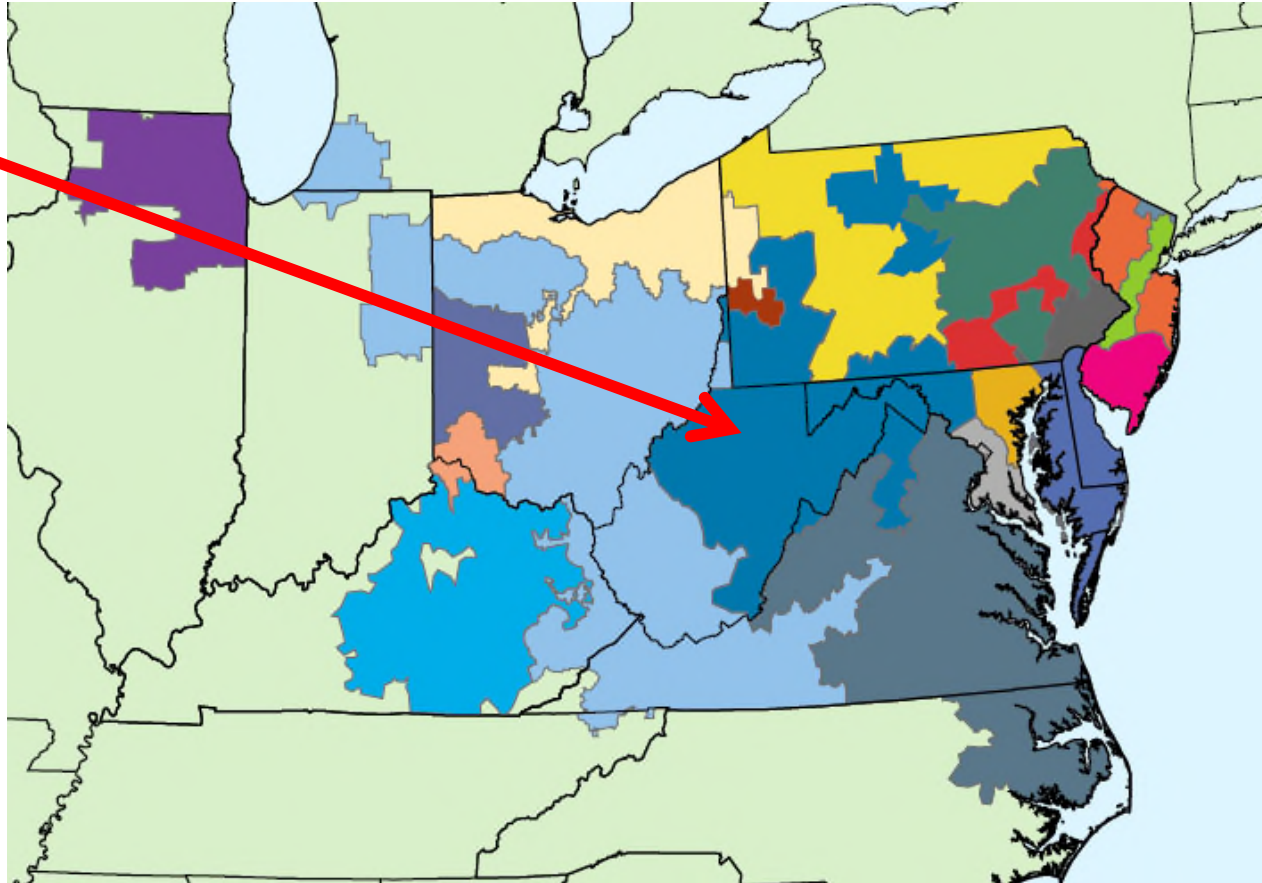


Source: United States Department of Labor Statistics, Bureau of Labor Statistics. Data Tools (Databases, Tables & Calculators by Subject)

Surrounding States are Out-Competing West Virginia

- WV industrials/manufacturers are losing production to Ohio, Kentucky, Virginia, and Pennsylvania
- These states have tariff rules and statutes that allow electric rates to be adjusted for economic development, retention, and/or market-priced electricity:
 - Kentucky – tariff that allows access to market-priced power
 - Ohio – rates discounted to reflect economic development value
 - Virginia – incentive rates; open access to market
 - Pennsylvania – open market opportunities for large users
- WV only has a very narrow "special contract" statute

Surrounding States are Out-Competing West Virginia



What Can We Do To Protect Industrial & Manufacturing in WV Now

- WV's current, traditional regulatory paradigm does not fit well with the new wholesale market/PJM
 - Natural gas-fired generation leads the market
 - No access to, or benefit from, WV's abundant resources
- Stem legislation that places utility shareholder interests above those of ratepayers
- Allow for creative pricing, economic retention and development rates
- Allow access to wholesale supplies and the benefits of plentiful shale gas

What Can We Do To Protect Industrial & Manufacturing in WV Now

1. Need PSC flexibility for interruptible, opportunity, and economic development offerings/retention contract and tariff offerings (like surrounding states) → Economic Value Recognition
 - a. The value of economic contributions should be better recognized in negotiated rates
 - b. The fact that large electric user rates for decades have subsidized residential rates must be acknowledged/corrected
 - c. Other ratepayers benefit from economic and rate contribution (better than if the large users shut down altogether)
 - d. Legislation may be required

What Can We Do To Protect Industrial & Manufacturing in WV Now

2. Access to markets and wholesale supplies →
Customer Choice
 - a. The largest, most sophisticated users of electricity should have access to the PJM market and/or WV-based wholesale supplies
 - b. Industrial and manufacturing customers can benefit from wholesale market or bilateral contracting
 - c. Can reduce the existing utilities' need to acquire generation assets or market purchases
 - d. Legislation may be required

What Can We Do To Protect Industrial & Manufacturing in WV Now

3. Promote On-site Cogeneration

- a. Public utility status should not attach to cogeneration at industrial sites (allow 3rd party investment/operation)
- b. Explore on-site cogeneration to foster industrial campuses, industrial site electric cooperatives, decentralized energy
- c. Large users can benefit from abundant gas supplies (20% cost reductions) without investment; utility capacity obligations can decrease
- d. Legislation may be required

What Can We Do To Protect Industrial & Manufacturing in WV

- What is at stake:
 - Viability of WV economy, tax contributions, jobs, jobs, jobs
- What else would these measures do:
 - Reduce utility need for more plant investment/PPAs and PJM capacity (lowering costs to captive ratepayers)
 - Allow business and industry to access the benefits of West Virginia's energy advantage, while enhancing the economy and fostering job growth in West Virginia
- What we need:
 - Ongoing education about rates, political understanding, support, and a legislative champion

- Thank you -