CONSUMER ADVOCATE DIVISION
STATE OF WEST VIRGINIA
PUBLIC SERVICE COMMISSION
700 Union Building
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Charleston, West Virginia 25301
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October 31, 2012

11:44 AM OCT 31 2012 PSC EXEC SEC DIV

Sandra Squire
Executive Secretary
Public Service Commission of West Virginia
201 Brooks Street
Charleston, West Virginia 25301

RE: MONONGAHELA POWER COMPANY, and
THE POTOMAC EDISON COMPANY, both d/b/a
ALLEGHENY POWER COMPANY
CASE NO. 11-1274-E-P

Dear Ms. Squire:

Enclosed for filing in the above-styled and numbered case, please find an original and twelve copies of the *Consumer Advocate Division's Comments on the 2012 Resource Plan.* Copies have been served upon all parties of record.

Very truly yours,

Jacqueline Roberts (BA)

Jacqueline Lake Roberts
Deputy Consumer Advocate
State Bar No. 11756

Enclosures
cc: Christopher Callas, Esq.
John Auville, Esq.
Susan J. Riggs, Esq.
Derrick Williamson, Esq.
Mary Anne Maul, Esq.

PUBLIC SERVICE COMMISSION
OF WEST VIRGINIA
CHARLESTON

MONONGAHELA POWER COMPANY, and
THE POTOMAC EDISON COMPANY, both d/b/a
ALLEGHENY POWER COMPANY
General Investigation to Determine
Reasonable Rates and Charges for
Monongahela Power Company and The
Potomac Edison Company on and after
January 1, 2012.

CASE NO. 11-1274-E-P

**CONSUMER ADVOCATE DIVISION'S**
**COMMENTS ON THE 2012 RESOURCE PLAN**

On August 31, 2012, Monongahela Power Company (Mon Power) and Potomac Edison Company (PE), collectively (the Companies or MP/PE) filed their 2012 Resource Plan (Plan). The filing was made pursuant to the Commission's December 30, 2011 *Order* (Order) approving a settlement in this case (Stipulation). Paragraph 8 (f) of the Stipulation described the Plan contents and a recommended procedure for the Commission's review of the Plan:

> (f) The Parties recognize that future capacity costs and environmental regulations may have an impact on some of Mon Power's current generation assets and on the nature and availability of capacity resources in the future. The Companies will develop a resource plan ("Resource Plan") in which the Companies will compare projected peak demands with current and planned capacity resources to assess the sufficiency of future capacity resources to meet future demand. The Resource Plan will consider future energy requirements and the availability of supply- and demand-side resources as well as market purchases of capacity. The Companies will file the Resource Plan with the Commission as a closed entry in this case on or before September 1, 2012. The Parties recommend that after the Companies file the Resource Plan, the Commission (i) reopen this case for the limited and exclusive purposes of (A) permitting discovery by the Parties on the 'Resource Plan' and (B) allowing the Parties to file comments on the Resource Plan; and (ii) close this case upon the filing of such comments and remove it from the Commission docket of open cases.

Pursuant to the procedure outlined in the settlement, the Consumer Advocate Division (CAD) has reviewed the Companies' Plan, engaged in discovery, and files herewith its Comments on the Plan.

## I. PURPOSE AND SUFFICIENCY OF THE PLAN

The term that is commonly used in the electric utility industry for the type of Plan submitted by the Companies is an Integrated Resource Plan (IRP). The Energy Policy Act of 1992 defined an IRP as:

> The term "integrated resource planning" means, in the case of an electric utility, a planning and selection process for new energy resources that evaluates the full range of alternatives, including new generating capacity, power purchases, energy conservation and efficiency, cogeneration and district heating and cooling applications, and renewable energy resources, in order to provide adequate and reliable service to its electric customers at the lowest system cost. The process shall take into account necessary features for system operation, such as diversity, reliability, dispatchability, and other factors of risk; shall take into account the ability to verify energy savings achieved through energy conservation and efficiency and the projected durability of such savings measured over time; and shall treat demand and supply resources on a consistent and integrated basis.[1]

From a regulatory perspective the purpose of an IRP is to provide the Commission with a preview of issues impacting the Companies' cost of service that the Commission may have to address in the future. The Companies' Plan meets this standard. The Companies' have stated that they propose to meet the future needs of their customers through several transactions with their affiliates, which the Companies describe as the "Transaction:"

1. The purchase from Allegheny Energy Supply Company (Allegheny Supply) of 1,567MW of Harrison Plant capacity;

2. The sale of 100 MW of capacity in the Pleasants Plant to Allegheny Supply; and

3. The transfer from of 177MW of purchase power rights for generation produced by Ohio Valley Electric Corporation (OVEC) from Allegheny Supply and FirstEnergy

[1] Energy Policy Act of 1992. §111(d)(19)

Generation Corporation.

Each of the components of the Companies proposed Transaction will require Commission review, and if approved, will have an impact on the Companies' rates in the future.

Even though the Companies' IRP provides the Commission with a "heads-up" about its future plans, the document submitted by the Companies fall well short of being an objective analysis of the panoply of resources available to the Companies. In a nutshell, the analysis contained in the Plan relies upon questionable assumptions and omissions, all with the apparent purpose of tilting the analysis in favor of the Companies' proposed Transaction. The CAD will address some of these issues below.

## II. ISSUES RAISED BY THE PLAN

### A. <u>The Companies Do Not Need Additional Resources On-Line Until At Least June 2014.</u>

If the Companies obtain 1,653MW of generating capacity in 2013 as proposed, the Companies' customers will not enjoy the benefits of the extraordinarily low price of capacity available through PJM through at least June 2014. The historical and future prices for capacity[2] through PJM's Base Residual Auction are shown in the Companies' Plan, Figure 8 on page 15. PJM conducts an annual auction to determine the price of necessary demand-side and supply-side resources to meet projected needs on the PJM system on a 3 year forward basis. For example, the most recent auction was held in May 2012 for pricing capacity for the delivery year of June 2015 through May 2016.

Figure 8 shows that PJM capacity prices have steadily declined from $174.29/MW-Day in 2010/2011 to $16.46/MW-Day for the current delivery year (2012/13). For the 2013/14 delivery year, capacity prices only increase to $27.73/MW-Day, approximately one-sixth of the

[2] Although I use the term 'capacity', the PJM auction is open to demand-side as well as supply-side resources.

2010/2011 price.

The CAD will not represent to the Commission that it has engaged in any modeling of all of the various supply and demand side resources discussed in the Companies' Plan. However, just as it "doesn't take a weatherman to know which way the wind blows" it doesn't take any modeling to assert that the Companies cannot obtain capacity resources at lower cost than the PJM capacity price from now through May 2014.

**B. The Commission Should Require Companies to Issue and RFP for Capacity.**

It appears that the Companies have limited their review of resource alternatives to only those resources available from their affiliates or generating resources they can build on their own. **Companies failed to explore the availability of supply- side and demand-side resources through bilateral contracts or a market-bidding process.** As noted above, the Companies' proposal for meeting the future demand and energy needs of their customers is to: 1) acquire 1,576 MW of capacity of the Harrison Plant from its affiliates, 2) transfer 100MW of capacity of Pleasants Plant to its affiliates, and 3) accept assignment of the power purchase rights currently held by the Companies' affiliates in OVEC (177MW).

The CAD believes Companies must explore all options for satisfying their energy and capacity requirements, not just through the narrow view of affiliate transactions. For decades, it has been a common utility practice to publish Requests For Proposals (RFPs) in order to determine the quantity and price of demand-side and supply-side resources. In this context it is important to remember that the PJM capacity auction is a base residual auction. It provides no information whatsoever about the energy/capacity available in the bilateral market or what the costs of acquiring such energy/capacity would be in a bilateral market.

Neither the CAD nor the Companies will be able to provide the Commission with *evidence* of the amount and cost of capacity and energy resources available in the bilateral marketplace. Such evidence will be essential to the Commission for it to evaluate the prudency of the Companies' proposed Transaction. The CAD cannot issue an RFP, and even if it could, no one would respond to it. The RFP must be issued by the Companies, and if they do not voluntarily issue and RFP, this Commission should require it. The Commission should also permit comments on the terms of the RFP to ensure the RFP is designed to produce the most salient results.

## C. The Companies Have Inflated by 100% the Net Book Value of the Harrison Plant

Companies have written-up the net book value of the Harrison Plant by more than $500 million, which they propose will be paid by ratepayers. This will result in windfall profit to FirstEnergy at the expense of ratepayers if the Commission permits Companies to acquire the 1,567 MW of the Harrison Plant at the Companies' proposed net book value.

Attachment B is a copy of the Companies' response to the CAD's Data Request IRP-12. As can be seen from that response, the net book value of the Harrison Plant as of June 30, 2012 was $1,173,892,113.09. This is more than twice the book value for the Harrison Plant at December 31, 2010, just prior to the merger of Allegheny Energy and FirstEnergy (February 25, 2011). The dramatic increase in the net book value is not due to major investments in the plant since it was acquired by FirstEnergy. Rather, as the Companies note in response to IRP-12 that the primary reason for the dramatic increase in the book value for the Harrison Plant is "primarily the result of a purchase accounting fair value measurement related to the completion of the FirstEnergy/Allegheny Energy merger in February 2011."

## D. The Companies Have Used Unrealistic Assumptions Regarding the Capacity Factors of Natural Gas-Fired Combined Cycle Generators.

One way in which the Companies have skewed their analysis in favor of the proposed affiliate transactions is to assume unrealistically low capacity factors for natural-gas fired combined cycle generators. A generator's capacity factor reflects the amount of energy produced by the generator throughout the year and the generator's capacity rating. The Companies' baseline analysis assumes that a combined-cycle generator will only have a capacity factor of 25%.

The assumption of a low capacity factor increases the cost of meeting future needs through combined cycle generators in two ways. First, the low amount of energy assumed to be produced by the generator increase the cost of energy produced by the generator because capital costs are spread over a low amount of production. Second, the low capacity factor means that the Companies must build (or acquire) much more capacity from combined-cycle plants than from the Harrison Plant to produce the same amount of energy. The Companies have assumed that the Harrison Plant will have a capacity factor of 75%, compared to only 25% for combined-cycle generators. As the Companies note on page 59 of the Plan, the difference in assumed capacity factors between a gas combined cycle plant and Harrison would require the construction of 7.5 combined cycle plants in order to produce the same amount of energy as in the proposed Transaction.[3] The Companies' assumed capacity factor for combined cycle gas plants is unrealistically low.

**E. The Companies Have Failed to Adequately Consider the Availability of Cost-Effective Demand-Side Resources.**

The Companies dismiss any role for demand-side resources in meeting their customers' future demand and energy needs with a single paragraph.[4] It is astonishing that in 2012 any utility (especially a utility with the resources of FirstEnergy) would fail to evaluate the role of

[3] The Transaction includes the Harrison acquisition, the Pleasants sale and the assignment of the OVEC contract.
[4] Plan at 56.

demand-side resources as part of its capacity and energy portfolio. Again, the Companies are out of step with practices that are used throughout electric utility industry.

Moreover, the Companies' description of demand-side resources evidences a fundamental lack of understanding of what demand side resources are and how they can be incorporated into the Companies' portfolio. For example the Companies present the following description of the economics of energy efficiency resources:

> If an EE resource is cost effective for the consumer, it stands to reason that the consumer, when faced with an economic decision of whether or not to install the EE resource, would eventually do so regardless of any out-of-market incentive or utility program.[5]

The crucial fact that the Companies ignore in this statement is that the consumer can only react to current electricity rates not future electricity rates. One would have to assume superior knowledge by consumers regarding the Companies' future cost structure in order to make a decision to invest in the appropriate level of cost-effective energy efficiency today. The purpose of any Resource Plan should be to develop the appropriate level of resources that will result in the lowest future electricity rates.

The Companies dismiss any role for demand side resources based upon two assumptions or conclusions, both of which are inaccurate. First, the Companies state that demand side resources are not of sufficient scale to meet the Companies' needs. Of course, this conclusion ignores any concept of the use of a portfolio of resources to meet the Companies' needs. In fact, this same conclusion applies just as well to components of the Companies' proposed Transaction. Second, the Companies' inaccurately characterize these resources as "capacity-only." It is true that demandresponse programs (e.g., load management, price responsive demand, etc.) target peak demands, however, energy efficiency programs target energy consumption.

[5] Plan at 40.

## III. CONCLUSION

The Companies' Plan serves a useful purpose in providing the Commission with information regarding how the Companies anticipate meeting its customers' electricity requirements in the future. The Companies' proposed Transaction will have a dramatic impact on the Companies' cost of service. Unfortunately, the analytical deficiencies in the Companies' Plan make clear that the Companies have not adequately examined alternatives to their proposed Transaction. The CAD is hopeful that these errors and omissions will be corrected prior to the Companies' filing for approval of Transaction, and that this Commission will ensure essential information will be gathered by Companies through an RFP.

Respectfully submitted,

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## CERTIFICATE OF SERVICE

I, Jacqueline Lake Roberts, counsel for the Consumer Advocate Division of the Public Service Commission of West Virginia, (CAD), hereby certify that I have served a copy of the foregoing *Consumer Advocate Division's Comments* upon all parties of record by First Class, U.S. Mail, postage pre-paid.

Jacqueline Roberts (BA)

Jacqueline Lake Roberts
Deputy Consumer Advocate
State Bar No. 11756

Dated: October 31, 2012