

# CONSUMER ADVOCATE DIVISION'S ANNUAL REPORT FOR 2001

## AND COMPARATIVE RESIDENTIAL RATE STUDY

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### STATE UTILITY RATES INCREASED 1.1% IN 2000

Increases in the rates for water and natural gas offset decreases in the cost of electricity and phone service, resulting in a 1.1% increase in overall utility rates in West Virginia in 2000. Over the past decade utility rates in West Virginia have increased 12.8%, less than the rate of inflation in the general economy during the same period. In spite of the overall increase during the past year, price caps on gas rates have protected most West Virginia customers from the sharp price spikes seen in the rest of the nation. As a result, utility customers in West Virginia now pay rates that are substantially lower than those in neighboring states.

### **2000 Rate Cases**

In 2000 West Virginia utilities filed cases seeking net increases in rates of \$10.43 million. The Public Service Commission (PSC) rendered decisions in these cases which increased rates by \$8.34 million, as shown on [Appendix I](#) of this report. The Consumer Advocate Division (CAD) participated in 46 cases before the PSC, the Federal Energy Regulatory Commission, the Federal Communications Commission, the Security and Exchange Commission and the Courts, and played a large part in achieving rate savings for West Virginians. The bottom line of the work done by the Consumer Advocate Division is seen in the rates charged West Virginia residential consumers of electricity, gas, water and telephone service. In order to determine the impact of rate case decisions during the year, the CAD prepares an annual study of utility rates. [Utility rates used in the study are based on average monthly usage by a residential customer of 13 Mcf's of gas (Mcf = 1000 cubic feet), 600 kwh of electricity (kwh = kilowatt hour), 4,500 gallons of water and a single line telephone with flat-rate service. The telephone rates also include the applicable subscriber line charge and deaf relay service surcharge.] The tables that are linked to this report are referred to as Appendix II in hard copy. The study addresses current rates for 17 cities within West Virginia. In addition, rates for some of the largest cities in West Virginia were selected for study over the last ten years, and were compared to rates in surrounding states. The cities included in the state-to-state comparison and [ten-year study](#) were Charleston, Wheeling, Martinsburg and Fairmont.

### **Year to Year Rate Comparison**

Rates for the largest electric, gas, telephone and water companies in West Virginia at the beginning of 2000 and the beginning of 2001 are shown on [Table 1](#) and [Table 1A](#) of the study. As shown on [Table 2A](#) of the study, an average utility ratepayer in West Virginia paid \$180.66 for electricity, gas, water and telephone service in January 2000. Currently, that same customer is paying \$182.66, a 1.1% increase from last year. Table 8 in the [ten-year study](#) shows that present rates are 12.8% higher than the rates paid by customers in January 1991. While average West Virginia utility rates have gone up 12.8% over the past 10 years, general inflation has risen 22.8%.

### **City to City Rate Comparison**

Of the in-state areas studied, [Table 2](#) of the Study shows that residents of Logan continue to enjoy the lowest rates, while Hinton customers now have the highest bills. Hinton customers pay a total of \$223.76 for the same amount of electricity, gas, water and telephone service that would cost a customer in Logan \$160.05. As can be seen by reference to [Table 2A](#), there was no general trend in utility rates in individual cities. Changes in costs ranged from an increase of 13% in Bluefield to a decrease of 4.3% in Martinsburg. Natural gas costs continue to be the primary cause of the wide disparity in utility rates paid by West Virginians. At the beginning of 2001, customers using exactly the same amount of gas - 13 Mcf - paid as little as \$83.91 if they were served by Mountaineer Gas, or as much as \$117.54 if they were served by West Virginia Power Gas Service - a variance of over \$30.

### **Comparison with Rates in Surrounding States**

The costs of utility service in the largest West Virginia cities were substantially lower than the costs in cities in

surrounding states, as shown on [Table 3](#). Average customers in Wheeling pay \$162.27 a month; residents of Martinsburg pay \$172.05 a month; customers in Fairmont pay \$178.07 a month; and residents of Charleston and Huntington pay \$179.46 a month for electricity, gas, water and telephone service. **The statewide average for all cities is \$182.66.**

In comparison, customers in Lexington, Kentucky, pay \$204.83 a month; customers in Richmond, Virginia, pay \$207.94; customers in Columbus, Ohio, pay \$216.99; customers in Baltimore, Maryland, pay \$226.40; and customers in Pittsburgh, Pennsylvania, pay the highest rates at \$262.20 a month. **Rates paid by these out-of-state residents average \$223.67 a month, over \$40 a month more than West Virginia customers.**

As can be seen on [Table 3](#), West Virginia rates for telephone and water service were higher than in surrounding states. However, the higher cost of these services was more than offset by West Virginia's low electric and gas rates.

## **Review of 2000 Regulatory Actions**

During the year 2000, the majority of regulatory actions dealt with rulemakings to implement the Commission's electric restructuring plan, and rate cases seeking to align the communications marketplace with new competitive realities. At the end of the year, rapidly escalating prices for natural gas caused a number of small gas companies to ask for very large increases in purchased gas rates.

### **Telecom**

The growth of local telecommunications competition continued to be slow in 2000, but some progress was made toward lower basic rates and better service. In February the PSC approved an agreement to pass back to Verizon's ratepayers \$30.8 million in federal universal service support. As a result, each customer's basic rate was lowered an average of 16%. Because federal funds for 2001 were reduced by \$4.6 million, the credit on Verizon's customer's bills was also reduced at the beginning of 2001.

Also in February 2000, AT&T filed a complaint against Verizon alleging that Verizon's in-state access charges - rates paid by long distance companies for interconnection with the local phone company - were too high by almost \$28 million. The CAD took the position that Verizon's access charges should be set at the same level as Verizon's interstate access charges. This would reduce Verizon's access charges by \$25 million and save West Virginia long distance customers approximately 5¢ per minute on in-state calls. This case was heard in October and submitted to the Commission for decision.

In February 2000 the PSC approved a new incentive plan agreement for Citizens Telecom. Under this agreement, calling areas will be expanded and business rates and access rates will be reduced, resulting in savings of \$2.4 million in 2000. Citizens' in-state access rates will continue to be reduced each year through 2004. In a different proceeding, agreement was reached with all independent phone companies in West Virginia to charge uniform rates to all K-12 schools in West Virginia for advanced services necessary to directly connect to the Internet.

On the negative side, Verizon's incentive plan expired at the end of 2000 and no agreement was reached on a replacement. The CAD is considering options for action to ensure that Verizon's excessive earnings are equitably shared with ratepayers.

### **Electricity**

The Commission submitted its landmark electric restructuring plan to the Legislature in January 2000. The plan calls for a 13-year transition from the current regulated industry to an environment where generation of electricity is deregulated and customers can choose their own supplier. During this 13-year transition, customers are provided numerous protections to ensure that West Virginians do not lose the benefit of our current low rates. The plan provides prolonged rate caps for residential and small commercial customers, while giving all customers the right to shop for a supplier of electricity on the first day of the transition.

Following passage of the plan by the Legislature in March, the PSC immediately embarked on a process to craft regulations to govern a deregulated electric industry in West Virginia. After numerous lengthy workshops involving all

of the parties, consensus was reached on a large number of issues, including licensing, bonding and consumer and worker protections. Remaining contested issues were submitted to the Commission for decision in October. In addition, all electric utilities submitted plans on unbundling their existing rates into components covering generation, transmission and distribution.

At the end of 2000, troubles in California - which was among the first states to deregulate electricity - raised grave doubts about whether the Legislature would pass statutory tax changes which were necessary in order for the West Virginia restructuring plan to go into effect. The CAD continues to support the plan and believes it will be beneficial to the state whenever it is finally implemented.

## **Gas**

As a result of price caps covering approximately 90% of all gas customers in the State, most West Virginians were able to avoid the dramatic rise in gas prices which afflicted the rest of the nation. Customers of Mountaineer, Hope, Equitable, Shenandoah and Carnegie were all covered by some form of price cap. It is estimated that these price caps will save West Virginia customers from \$60 to \$100 million during the 2000/2001 heating season. Unfortunately, the remaining 10% of gas customers not covered by price caps bore the full brunt of volatile gas prices. Customers of Bluefield Gas and West Virginia Power Gas saw their rates increase during 2000 by 22% and 19% respectively. Moreover, a cold winter season with ever-increasing gas costs drove many small utilities to seek emergency rate hikes at the end of the year and the beginning of 2001.

During 2000, the PSC approved the purchase of Mountaineer Gas by Allegheny Energy. As a result of this purchase and the previous purchase of West Virginia Power Gas, Allegheny Energy is now the largest gas utility in West Virginia. At the beginning of 2001 Mountaineer filed a new rate case seeking a 39% increase in rates. These proposed rates would take effect on November 1 - the end of the three-year price cap - and would affect customers of Mountaineer and Shenandoah. The CAD immediately intervened in this case, and will seek to keep rates as low as possible.

## **Water**

As a result of a massive expansion program, water rates for the largest water company in the state, West Virginia-American, continued to rise. As can be seen in [Table 1A](#) of the CAD's rate survey, West Virginia-American raised its rates by 10.5% in 2000. Municipal water systems also faced large increases as they upgraded treatment and delivery systems. In analyzing future water rate cases, the CAD will continue to balance the need to extend water service to as many unserved and ill-served areas as possible, with the need to keep rates affordable for all customers.

## **Conclusion**

Almost every area of utility service, except water, is now subject to some form of competition. During the transition to competition, the Consumer Advocate Division will continue to insist that the benefits of competition be extended to as many customers in West Virginia as possible, while those customers with no competitive options continue to be protected. Where competitive options are not available, or where competition does not fully work, the Consumer Advocate will vigorously employ regulatory tools to achieve better service and better prices for customers in West Virginia.

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