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Citizen Action Group Files Objection to Harrison Case Settlement

Argues that proposed settlement is raw deal for customers

Charleston, W.Va. – West Virginia Citizen Action Group (WV-CAG) filed a formal objection with the W.Va. Public Service Commission Friday, contending that a proposed settlement agreeing to the purchase of the Harrison power station should not be approved and that the companies' petition should be denied in its entirety. **WV-CAG argues that the price that ratepayers are being asked to pay for Harrison is still way too high and that acquiring the plant will increase long-term price risks for ratepayers.**

WV-CAG argues that the $796 million price is higher than the plant's actual book value and violates a previous Commission order. In its 2010 Order approving the FirstEnergy/Allegheny merger, the PSC stipulated that FirstEnergy would not seek future recovery of any *"acquisition premium"* merger costs added to its books. The value of the Harrison plant was marked up by $589 million during the merger. In Mon Power and Potomac Edison's original proposal, the utility sought to purchase Harrison for a price that included that $589 million markup. Although the proposed settlement reduces the markup by about $300 million, WV-CAG argues that this "in no way improves its legality."

WV-CAG further notes that recovering this sort of acquisition adjustment from ratepayers would not be reasonable because Federal Energy Regulatory Commission (FERC) accounting guidelines prohibit recovery of such acquisition adjustments from ratepayers. *"That the PSC is asked to ignore FERC accounting guidance ... is further evidence that recovery of merger acquisition adjustments is not just and reasonable,"* WV-CAG states in its objection.

"The reason that power plants are typically required to be valued at their original cost less depreciation is exactly so that power companies can't inflate the value of an asset and charge that extra amount to ratepayers," said Cathy Kunkel, one of WV-CAG's experts in the proceeding.

Friday's filing says that acquiring Harrison means that Mon Power and Potomac Edison will generate more than 90% of their energy from just two, coal-fired power plants that were constructed within five years of each other.

This is an extreme case of a utility putting all of its eggs in one fuel basket, and exposes ratepayers to significant financial risks - not only of coal price volatility, but also of both power plants contemporaneously facing declining operating performance and increasing operating and replacement costs as they age.

Under the proposed settlement, electric rates will decline slightly through the end of 2014 ($1.50 per month for residential customers). The settlement proposes to amortize the gain on selling the Pleasants Power Station and return that money to ratepayers over the next 16 months. In their original proposal, Mon Power and Potomac Edison had proposed instead to amortize the gain over the remaining life of Pleasants, 32 years. Accelerating the amortization has the effect of reducing rates for 2014 by $19 million and, without this provision, there would be no rate decrease from the settlement.

"*The settlement's proposed rate decrease is classic smoke and mirrors,"* said Gary Zuckett, Executive Director of WV-CAG. *"What's really going on is that ratepayers are being asked to assume all the costs and risks of a 40-year-old coal plant for the next 27 years so that Allegheny Energy Supply's shareholders don't have to. This is not a good buy for West Virginia."*

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Background: A proposed settlement was filed last week in the PSC case number 12-1571-E-PC involving Mon Power and Potomac Edison's proposal to purchase 80% of the Harrison power station from their Pennsylvania affiliate, Allegheny Energy Supply. As part of the transaction, Mon Power will also sell its small (100MW) interest in the Pleasants Power Plant to Allegheny Energy Supply. Mon Power, Potomac Edison, and Allegheny Energy Supply are all subsidiaries of FirstEnergy Corp. Under the terms of the proposed settlement, ratepayers will pay $796 million (spread over the lifetime of Harrison) for the transaction, lower than the $1.102 billion originally proposed but still over a quarter of a billion dollars more than the book value when acquired two years ago. The Commission has been asked by FirstEnergy to approve the settlement by August 30th.