

COMMITTEE ON ELECTRICITY

SECURITIZATION:

The AP experience in West Virginia

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NARUC
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AP Background

AP had previous experience with securitization from
PA stranded cost recovery

2004 Situation

- Coal power plant emissions
- Depleting allowance bank
- Needed to scrub; allowance prices escalating
- Capital expenditures needed would be very large

Ft. Martin - emissions

U. S. Coal Generation Emissions, 2003

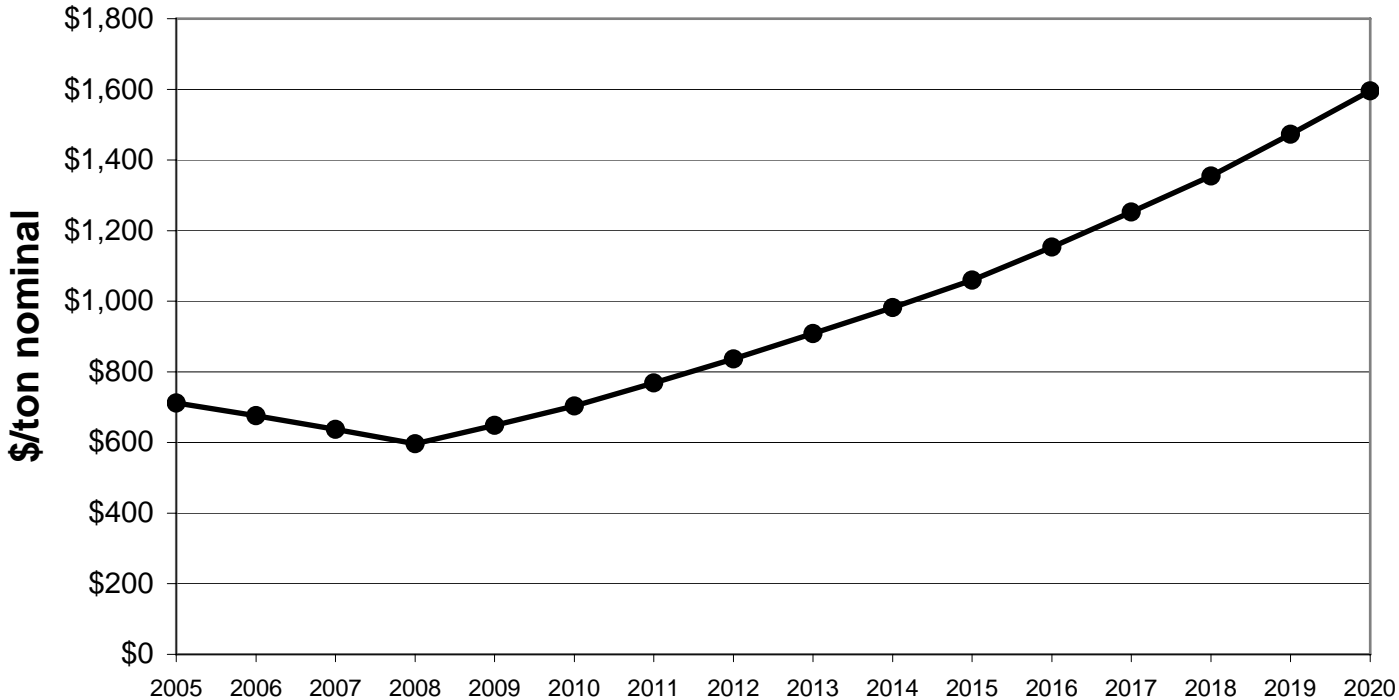
Rank	State	Owner	Facility Name	Unit No.	Tons SO2
1	PA	Reliant	Keystone	2	84,920
2	OH	AEP	Conesville	4	83,558
3	PA	Reliant	Keystone	1	78,573
4	PA	Edison Mission	Homer City	1	78,225
5	KY	TVA	Paradise	3	75,469
6	PA	Edison Mission	Homer City	2	68,523
7	PA	PPL	Montour	2	66,834
8	AL	Southern	E C Gaston	5	58,145
9	PA	PPL	Montour	1	57,944
10	WV	Allegheny	Fort Martin Power Station	1	56,646
11	PA	Allegheny	Hatfields Ferry Power Station	3	55,002
12	OH	AEP	Cardinal	1	52,481
13	WV	AEP	John E Amos	3	50,976
14	GA	Southern	Bowen	4BLR	49,453
15	WV	AEP	Mountaineer (1301)	1	48,036
16	GA	Southern	Wansley (6052)	2	47,244
17	PA	Allegheny	Hatfields Ferry Power Station	1	46,934
18	TX	TXU	Big Brown	1	46,888
19	GA	Southern	Wansley (6052)	1	46,735
20	GA	Southern	Bowen	3BLR	46,724
21	WV	Allegheny	Fort Martin Power Station	2	45,876
22	VA	Dominion	Chesterfield Power Station	6	45,447
23	PA	Reliant	Cheswick	1	45,433
24	OH	First Enegy	W H Sammis	7	44,845
25	OH	First Enegy	W H Sammis	6	44,224

Source: CPCN filing, March 2005

Emissions Allowances

Price forecast

SO2 Allowance Price Projections



Source: CPCN filing, March 2005



WV Background

2004 Situation, *continued*

- AP's overall financial condition severely damaged during the 2002-03 period
- Access to traditional utility capital markets was impaired

Non-traditional financing was a good fit for AP, and would result in lowest rate impacts for WV consumers



Allegheny approach

- Introduction of concept*
 - WV Commission, Staff and CAD
 - Key legislators, governor
 - Local grass roots campaign

**Included asset ownership transfers for wholly-owned Ft. Martin*



Legislation

- Modeled after Wisconsin
 - AE, PSC Staff, CAD, West Virginia Energy Users Group
- Presented to sponsor
 - Draft provided to WV Commission
 - WV PSC and CAD supportive
- Bill passed in one legislative session (2005)



Regulatory Applications

- Certificate of Need filed March 2005
 - To build wet scrubbers at Ft. Martin plant
 - Most cost effective environmental compliance, vs. switching to PRB or dry scrubbing
 - Start late 2006, done by Dec. 2009
 - Estimated capital cost \$338 million



Regulatory Applications

- Financing application filed May 2005
 - Contained proposed details of securitization financing
 - Estimated bond issuance dates, terms
 - Itemization of financing costs
 - Description of mechanics (e.g., adjustment formulae)
 - Estimated rate impacts by customer class



Regulatory Update

- Extensive negotiations resulted in filing of a settlement on January 11, 2006:
 - Added a PSC Financial Advisor (FA) role
 - Structured FA/PSC review process
- WV PSC Approval pending