***OCC EXHIBIT NO. \_\_\_\_\_\_***

**BEFORE**

**THE PUBLIC UTILITIES COMMISSION OF OHIO**

|  |  |  |
| --- | --- | --- |
| In The Matter Of The Application of TimkenSteel Corporation for Approval of a Unique Arrangement for the TimkenSteel Corporation’s Stark County Facilities | )  )  )  ) | Case No. 15-1857-EL-AEC |

**Supplemental TESTIMONY**

**OF**

**MICHAEL P. HAUGH**

**On Behalf of the**

**The Office of the Ohio Consumers’ Counsel**

*10 West Broad Street, Suite 1800*

*Columbus, Ohio 43215-3485*

**December 3, 2015**

Q1. PLEASE STATE YOUR NAME, title, AND BUSINESS ADDRESS.

***A1.*** My name is Michael P. Haugh. I am employed as the Assistant Director of Analytical Services for the Office of the Ohio Consumers’ Counsel (“OCC”). My business address is 10 West Broad Street, Suite 1800, Columbus, Ohio 43215.

***Q2. have you previously submitted testimony in this case?***

***A2.*** Yes, on November 27, 2015, I submitted Direct Testimony to make recommendations to the PUCO regarding the Application of TimkenSteel Corporation (“TimkenSteel” or “Applicant”) for a unique arrangement. That testimony includes a statement of my qualifications and a listing of my past testimony.

***Q3. What is the purpose of your SupplEmental testimony in this proceeding?***

***A3.*** The purpose of my Supplemental Testimony is to express opinions regarding the PUCO’s three-pronged test as it relates to a Settlement. On December 3, 2015, the Applicant filed a Stipulation and Recommendation (“Settlement”), which accepted the Application as filed. Applicant and the Staff of the Public Utilities Commission of Ohio (“Staff”) are the signatory parties to the Settlement. This Supplemental Testimony contains my recommendations regarding the Settlement and whether it passes the three-pronged test of the Public Utilities Commission of Ohio’s (“PUCO”) for evaluating the reasonableness of a proposed settlement.

The Settlement incorporates all of the provisions of the Application. As stated in my Direct Testimony, OCC appreciates TimkenSteel’s courtesy in discussing the Application, and that it has proposed caps on what consumers would pay among other things. In addition, my earlier filed Direct Testimony already addresses my concerns for consumers regarding the Application and my recommendations to the PUCO for consumer protection. My Direct Testimony forms the foundation for my review of the Settlement and should thus be considered with and incorporated as part of this Supplemental Testimony. For the PUCO’s convenience, I have attached my earlier Direct Testimony to this Supplemental testimony (Attachment 1).

***Q4. PLEASE SUMMARIZE YOUR OPINIONS REGARDING THE SETTLEMENT.***

***A4.*** The Settlement does not fully meet the PUCO’s three-pronged test. However, if the recommendations contained in my filed Direct Testimony are adopted, then the Settlement could meet the PUCO's three-pronged test.

Q5. What ARE the PUCO’s standards of review for evaluating proposed settlements?

***A5.*** The PUCO uses these criteria for evaluating the reasonableness of a proposed settlement:

1. Is the settlement a product of serious bargaining among capable, knowledgeable parties, where there is diversity of interests among the stipulating parties?
2. Does the settlement package violate any important regulatory principle or practice?
3. Does the settlement, as a package, benefit customers and the public interest?[[1]](#footnote-2)

Q6. Does the settlement meet the first prong of the standard?

***A6.*** No. The settlement lacks diversity of interests. That means customers (including residential consumers) who would pay a subsidy to AEP Ohio for its discounts to the Applicant’s rates are not signatories.

Q7. Does the settlement package violate any important regulatory principle or practice?

***A7.*** Yes. Regulatory principles and practices should be served by identifying all subsidy amounts that constitute the delta revenues electric customers are asked to pay to AEP Ohio to fund an applicant’s electricity discounts. As discussed in my Direct Testimony, the PUCO should count in delta revenues--for purposes of calculating a cap to limit what consumers will be asked to subsidize in delta revenues--any amounts that customers are asked to pay as a result of proposed changes to two Riders. One of those Riders is the Basic Transmission Cost Rider (“BTCR”) and the other Rider is the Interruptible Power-Discretionary Rider (“IRP-D”). In addition, the Settlement should allow for reducing the amount of the delta revenue that consumers are asked to pay, by a sharing of the costs (the subsidy payments) for the Application between customers and AEP Ohio. This approach of sharing to reduce what consumers pay for the subsidy reflects a better principle or practice compared to the outcome where consumers pay the entire subsidy to fund an applicant’s electricity discounts. As I discussed in my Direct Testimony, past precedent supports cost-sharing between the utility and its customers.

Q8. Does the settlement, as a package, benefit CUSTOMERs and the public interest?

***A8.*** To move the Settlement closer to meeting this standard, the PUCO should adopt the recommendations that I made in my Direct Testimony. These recommendations include but are not limited to the PUCO should limit the Applicant’s unique arrangement benefits to this instance, without there being a repeat request or a repeat authorization for additional subsidies from customers in the future. Further, there should be a benefit for customers and the public interest where the PUCO establishes a cap, per electric utility service territory, on how much can be charged to utility customers for all economic development rate discounts in a given territory. Also, the annual report the Applicant is required to file with the PUCO should be made available to all interested parties.

Q9. Does this conclude your testimony?

***A9.*** Yes, however I reserve the right to incorporate new information that may subsequently become available, such as after testimony by the stipulating parties is available.

**CERTIFICATE OF SERVICE**

I hereby certify that a true copy of the foregoing *Supplemental Testimony of Michael P. Haugh, on Behalf of the Office of the Ohio Consumers’ Counsel* was served via electronic transmission upon the parties below this 3rd day of December 2015.

*/s/ Jodi Bair*

Jodi Bair

Assistant Consumers’ Counsel

**SERVICE LIST**

|  |  |
| --- | --- |
| William.wright@puc.state.oh.us  dboehm@BKLlawfirm.com  mkurtz@BKLlawfirm.com  jkyler@BKLlawfirm.com | stnourse@aep.com  mjsettineri@vorys.com  wasieck@vorys.com  Bojko@carpenterlipps.com  orourke@carpenterlipps.com |

***OCC EXHIBIT NO. \_\_\_\_\_\_***

Attachment 1

**BEFORE**

**THE PUBLIC UTILITIES COMMISSION OF OHIO**

|  |  |  |
| --- | --- | --- |
| **In The Matter Of The Application of TimkenSteel Corporation for Approval of a Unique Arrangement for the TimkenSteel Corporation’s Stark County Facilities** | **)**  **)**  **)**  **)** | **Case No. 15-1857-EL-AEC** |

**DIRECT TESTIMONY**

**OF**

**MICHAEL P. HAUGH**

**On Behalf of the**

**The Office of the Ohio Consumers’ Counsel**

*10 West Broad Street, Suite 1800*

*Columbus, Ohio 43215-3485*

**November 27, 2015**

**TABLE OF CONTENTS**

**PAGE**

[I. OVERVIEW 1](#_Toc436402882)

[II. PURPOSE OF TESTIMONY 2](#_Toc436402883)

[III. Recommendations 4](#_Toc436402884)

[IV. CONCLUSION 11](#_Toc436402885)

**ATTACHMENTS**

Attachment MPH-1 List of Testimony Filed

# I. OVERVIEW

Q1. PLEASE STATE YOUR NAME, title, AND BUSINESS ADDRESS.

***A1.*** My name is Michael P. Haugh. I am employed as the Assistant Director of Analytical Services for the Office of the Ohio Consumers’ Counsel (“OCC” or “agency”). My business address is 10 West Broad Street, Suite 1800, Columbus, Ohio 43215.

***Q2. Please briefly summarize your education and professional experience.***

***A2.*** I have a Bachelor of Science in Business Administration from the Ohio State University with a major in Finance; I have also attended the Institute of Public Utilities Advanced Regulatory Studies at Michigan State University. I have over 20 years working in the energy industry with experience in wholesale and retail energy trading, risk management, natural gas purchasing and scheduling and regulatory affairs. I started with Enron Energy Services in 1995 as an Energy Trader and then moved on to American Electric Power Energy Services in 1998 where I worked in Risk Management and Wholesale Energy Trading. In January 2004 I went to work for MidAmerican Energy Services as a Senior Product Manager. In October of 2004 I began work as a Senior Regulatory Analyst with the OCC. I left the OCC in September 2007 and joined Integrys Energy Services as a Regulatory Affairs Analyst. I joined Just Energy in 2009 and held the position of Manager of Regulatory Affairs before becoming Manager of Market Relations in 2011. I was re-hired at the OCC in June 2014 in my current position.

***Q3. Have you previously submitted testimony in utility cases before regulatory commissions?***

***A3.*** Yes, I have testified before the Public Utilities Commission of Ohio (“PUCO” or “Commission”) and the Michigan Public Service Commission. The complete list of cases in which I have testified is attached as Attachment MPH-1.

# II. PURPOSE OF TESTIMONY

***Q4. What is the purpose of your testimony in this proceeding?***

***A4.*** The purpose of my testimony is to make recommendations to the PUCO for resolving this case in a manner that includes reasonable protections for residential consumers. These protections will help provide balance for consumers considering that they (consumers) are asked to pay subsidies for economic development. Residential consumers are among the customers who pay the subsidies for rate discounts for economic development.

My recommendations include proposals regarding the November 2, 2015 Application filed by one of AEP Ohio's (“Ohio Power” or “Utility”) mercantile customers, TimkenSteel (“Timken” “Applicant” or “Mercantile Customer”). I appreciate that TimkenSteel discussed its application with the Ohio Consumers’ Counsel prior to filing.

Q5. Please provide an overview of the Application.

***A5.*** On November 2, 2015, the Applicant filed to establish a unique arrangement, with Ohio Power, for its manufacturing facility in Stark County, Ohio. In its application, the Mercantile Customer requested a percentage discount off Ohio Power’s monthly tariff charges, excluding the Basic Transmission Cost Rider (“BTCR”) and also excluding generation charges which the Applicant would procure through an energy marketer for the duration of the arrangement. In addition the Applicant is seeking to begin paying for transmission service based upon an annual distribution utility single transmission coincident peak. The Applicant would like to serve as an interruptible resource for Ohio Power during the term of the arrangement and receive the $8.21/kW interruptible service credit regardless of whether that credit is available through the Ohio Power tariff.[[2]](#footnote-3) The Applicant seeks a unique arrangement that lasts for 65 months. The Applicant commits to continue capital investment in Ohio and commits to having a minimum number of employees during the term of the arrangement. The Applicant has also pledged that the delta revenue (the amount that Ohio Power’s 1.4 million other customers may subsidize) resulting from this arrangement will have hard caps for both the total subsidy amount collected from other customers during the 65 months and for collections from other customers during any twenty-four month period.

# III. Recommendations

Q6. What ARE your recommendations to improve this arrangement FOR CONSUMERS?

***A6.*** Overall the application includes a number of recommendations the OCC has made regarding unique arrangement applications. I recommend a few modifications for making the Application a better balance for protecting the residential customers of Ohio Power (who are being asked to pay the subsidy charges that would result from this Application). OCC’s recommendations generally are applicable to any application proposing electric rate discounts to be funded by other customers for economic development.

First, the PUCO should identify the total costs to customers when calculating the delta revenue (the subsidy amount to be funded by other customers). Second, the PUCO should limit the unique arrangement (and subsidy payments by other customers) to this occasion without there being a repeat request for discounts and customer funding in the future. Third, the PUCO should order caps that limit the total amount and annual amount that AEP Ohio can charge customers through its economic development rider. And there should be a cap on the subsidies Ohioans will be asked to fund for economic development in an electric utility’s service territory. Fourth, the PUCO should determine a reasonable cost sharing between Ohio Power Company and its customers, so that customers alone do not bear the full cost of funding subsidies for economic development. Fifth, the PUCO should order economic development benefit levels (regarding investment and minimum employee levels) in connection with any granting of electricity discounts to be funded by other customers. Finally, the Applicant’s annual report to the PUCO should be available to interested parties, regarding the status of the economic development program. OCC appreciates that the Applicant made proposals on several of these consumer protections.

Q7. Why should the PUCO identify the total costs to customers?

***A7.*** In balancing of the interests in this type of case the PUCO should know exactly what is comprised in the delta revenue (the subsidy funding from other customers). The Application has a number of different components for discounts or Applicant savings. The discount off tariff charges is identified as delta revenues. This view understates the delta revenues created under the proposed unique arrangement; because other components should also be identified as giving rise to delta revenues.

For instance, the Applicant proposes to be treated as its own class as it relates to paying the transmission rider, Rider BTCR. Under its proposal the Applicant would be allocated its share of the transmission demand-related costs based upon its one coincident peak. This may have a positive effect on the distribution system if the Applicant is able to reduce its demand on the annual coincident peak and in turn lower the Utility’s transmission peak. If the proposal does not positively affect the distribution system peak, then other customers could be required to pay increased distribution charges. If increased charges result from this provision of the unique arrangement, then the PUCO should include these extra charges as part of the delta revenue created by the arrangement. Conversely, if the proposed change results in cost savings for other customers, then those savings should be credited to the delta revenues.

Another example of the PUCO’s need to identify amounts as delta revenues is the proposed credit the mercantile customer would receive under the interruptible power-discretionary rider (“IRP-D”). The applicant would receive an $8.21/kW-month credit for all interruptible load it offers to the Utility. This credit is offset by any revenues the Applicant receives from PJM as a demand response resource. It is my understanding that the difference between the $8.21/kW credit and the PJM revenues can be significant. The amount should be counted in the delta revenue because the PUCO should know, for decision-making, what other customers would be paying for this portion of the unique arrangement. This recommendation is especially applicable for consumer protection given that, under the Application, this credit would continue regardless of whether Ohio Power continues to offer this interruptible service through its tariffs.

Q8. should thE PUCO LIMIT WHAT CUSTOMERS FUND FOR unique arrangementS TO A SINGLE INSTANCE WITHOUT REPEAT FUNDINGS IN THE FUTURE?

***A8.*** Yes. The Applicant has commendably stated it has an interest in not relying on the PUCO’s approval of future unique arrangements to continue operations. In balancing the interests of the benefits of economic development with the costs that other customers pay in subsidy for the electricity discounts, an appropriate consumer protection is to limit the subsidy payments to the one application without repeat customer funding going forward.

Q9. Why should the puco CAP the amount of customer-funded ELECTRICITY discounts that aep ohio gives to mercantile customers through its economic development rider?

***A9.*** A cap on the amount the utility can collect from other customers (to fund electricity discounts for a mercantile customer) is important protection for consumers who pay the subsidy. The Applicant proposes a cap on the total amount to be collected and also a cap on what can be collected every twenty-four months. This is a commendable component of the Application. I recommend annual caps and a total cap as consumer protection.

Additionally, there should be a cap on the subsidies Ohioans will be asked to fund for economic development in an electric utility’s service territory. Currently, AEP Ohio’s Economic Development Cost Recovery Rider is set at 2.03573% of a customer’s distribution charges.[[3]](#footnote-4) For an average residential customer using 1,000 kWh per month, that equals roughly $0.54 per month.[[4]](#footnote-5) The subsidy charges vary over time according to applications and PUCO approvals, and AEP Ohio has had much higher monthly charges to customers for economic development, at times.[[5]](#footnote-6) That adds up to over $9 million per year paid by residential customers. The charge further increases the rates paid by Ohio Power customers that are already the highest in the state of Ohio, as well as the highest rates paid by AEP customers in its 11 state service territory in 2014.[[6]](#footnote-7) The PUCO should rule that the subsidies consumers are asked to pay to an electric utility (here, Ohio Power) for all economic development in the service area should not exceed, in total, a certain low percentage of consumers’ electric bills.

Q10. Why should there be a cost sharing between Customers and AEP Ohio?

***A10.*** The PUCO has historically allowed for a sharing of delta revenue between customers and the utility. A 50/50 sharing mechanism has been used in the past. In fact the PUCO has held “that a 50/50 split properly recognizes that both the [utility] and its customers benefit from the company’s policy of providing economic incentive rates to certain customers to attract new business in the utility’s service territory.”[[7]](#footnote-8)

In addition the PUCO has specifically stated it can approve a unique arrangement without allowing the utility to recover *any* of the delta revenue from other customers.[[8]](#footnote-9) AEP Ohio does receive benefits from this Mercantile Customer remaining as its distribution customer and should share in the cost of the economic development regarding the customer.

***Q11. SHOULD THE PUCO REQUIRE ECONOMIC DEVELOPMENT BENCHMARKS FOR APPLICANTS TO ACHIEVE WHEN ARRANGING FOR OTHER CUSTOMERS TO FUND ELECTRICITY DISCOUNTS FOR MERCANTILE CUSTOMERS?***

***A11.*** Yes. In considering the balance between economic development benefits and the subsidy charges that other customers pay for the mercantile customer’s electricity discounts, it is appropriate for the PUCO to determine expected and quantifiable beneficial outcomes for Ohio and Ohioans. In this regard, I recognize that the Applicant has stated two outcomes for the PUCO’s consideration, investment and minimum employee levels.

Q12. Why should the ECONOMIC DEVELOPMENT annual report be made available to interested parties?

***A12.*** It is appropriate for it to be known that companies receiving funding from Ohioans (for electricity discounts) regarding unique arrangements are fulfilling their commitments to Ohioans for economic development. The Ohio Administrative Code, that the PUCO adopted, requires an annual report to be filed by customers served under a unique arrangement. The report is to display the value of any incentives and the impact on customers.[[9]](#footnote-10) At a minimum the PUCO should treat these reports similar to the annual reports in an earlier case where the PUCO ordered the reasonable arrangement reports to be released to the Ohio Consumers’ Counsel. [[10]](#footnote-11)

For example, the Ohio Attorney General provides a reporting of the compliance of economic development awards given by the Ohio Development Services Agency.[[11]](#footnote-12) This report publicly discloses the amount of grant awards, loan amounts, commitments, performance, and actions taken if the commitments are not reached.

# IV. CONCLUSION

Q13. Does this conclude your testimony?

***A13.*** Yes, however I reserve the right to incorporate new information that may subsequently become available, such as after testimony by other parties is available.

**CERTIFICATE OF SERVICE**

I hereby certify that a true copy of the foregoing *Direct Testimony of Michael P. Haugh, on Behalf of the Office of the Ohio Consumers’ Counsel* was served via electronic transmission upon the parties below this 27th day of November, 2015.

*/s/ Jodi Bair*

Jodi Bair

Assistant Consumers’ Counsel

**SERVICE LIST**

|  |  |
| --- | --- |
|  |  |

|  |  |
| --- | --- |
| William.wright@puc.state.oh.us  dboehm@BKLlawfirm.com  mkurtz@BKLlawfirm.com  jkyler@BKLlawfirm.com | stnourse@aep.com  mjsettineri@vorys.com  wasieck@vorys.com  Bojko@carpenterlipps.com  orourke@carpenterlipps.com |
|  |  |

|  |  |
| --- | --- |
|  |  |

**Attachment MPH-1**

**Public Utilities Commission of Ohio**

*Monongahela Power Company*, Case No. 04-1047-EL-ATA

*American Electric Power Company*, Case No. 05-376-EL-UNC

*Dayton Power and Light Company*, Case No. 05-276-EL-AIR

*Dominion East Ohio Company*, Case No. 05-474-EL-ATA

*Dominion East Ohio Company*, Case No. 05-219-GA-GCR

*Columbia Gas of Ohio*, Case No. 05-221-GA-GCR

*Duke Energy Ohio*, Case No. 03-93-EL-ATA

*American Electric Power*, Case No. 07-63-EL-UNC

*Eramet Marietta, Inc.,* Case No. 09-516-EL-AEC

**Michigan Public Service Commission**

*Michigan Consolidated Gas Company*, Case No. U-17131

1. *Consumers’ Counsel v. Pub.Util. Comm.,* 64 Ohio St3d 123, 125(1992), citing *Akron v*. *Pub.Util. Comm.,* 55 Ohio St. 2d 155, 157 (1978). [↑](#footnote-ref-2)
2. Application at page 30. [↑](#footnote-ref-3)
3. Ohio Power Company Standard Tariffs 8th Revised Sheet No. 482-1. [↑](#footnote-ref-4)
4. Ohio Power Company – Columbus Southern Power Rate Zone Bill Calculation Spreadsheet found at https://aepohio.com/account/bills/rates/aepohioratestariffsoh.aspx. [↑](#footnote-ref-5)
5. As an example in the Ohio Power Company tariffs issued on April 15, 2011 the Economic Development Cost Recovery Rider was set at 7.53678% of the customer’s distribution charges. This equated to $1.97 per month for a residential customer using 1,000 kWh. [↑](#footnote-ref-6)
6. American Electric Power 2015 Fact Book presented at the 50th EEI Financial Conference November 8-11, 2015. http://www.aep.com/investors/EventsPresentationsAndWebcasts/ [↑](#footnote-ref-7)
7. *In the Matter of the Application of Columbus Southern Power Company for Authority to Amend its Filed Tariffs to Increase the Rates and Charges for Electric Service,* Case No. 91-418-EL-AIR. Opinion and Order at 110. (May 12, 1992). [↑](#footnote-ref-8)
8. See *In the Matter of the Application of Ormet Primary Aluminum Corporation for Approval of a Unique Arrangement with Ohio Power Company and Columbus Southern Power Company*, Supreme Ct. Case No. 09-2060, Brief of the Public Utilities at 12 (Mar. 3, 2010). “Appellant [CSP/OP] mistakenly believes that it is entitled to receive specific amounts from all customers, reasoning that money it doesn’t get from one customer it must get from another. This is not now, and never was, the law. As discussed above, R.C. 4905.31 requires no adjustment at all.” [↑](#footnote-ref-9)
9. Ohio Administrative Code 4901:1-38-06(A). [↑](#footnote-ref-10)
10. *In the Matter of the Application for Establishment of a Reasonable Arrangement between Eramet Marietta, Inc. and Columbus Southern Power Company*, Case No. 09-516-EL-AEC Entry at page 8 (March 3, 2011). [↑](#footnote-ref-11)
11. *2014 Report to the General Assembly: Award Recipient Compliance with State Awards for Economic Development*, December 9, 2014 http://www.ohioattorneygeneral.gov/Files/Publications/Publications-for-Business/2014-Economic-Development-Accountability-Report. [↑](#footnote-ref-12)