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OSCO INDUSTRIES, INC.

P. O. BOX 1388, PORTSMOUTH, OHIO 45662
740-354-3183
FAX 740-353-1504

October 30, 2008

Public Utilities Commission of Ohio
Attn: Docketing Division
180 E. Broad Street
Columbus, OH 43215

RECEIVED-DOCKETING DIV
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PUCO

RE: WRITTEN COMMENTS
AEP Rate Case
Case No. 08-917-EL-SSO

Dear PUCO:

My name is John Burke and I am President of OSCO Industries, Inc. in Portsmouth, OH, an American Electric Power (AEP) customer. OSCO currently employs 320 people and operates three iron foundries located in South Central Ohio. Our primary products are parts for residential and commercial heat pumps, efficient electricity consuming appliances. Collectively our facilities consume about 65,000,000 KWh of electricity annually at an aggregate cost of almost $4,000,000. If fully implemented, AEP's proposed rate increase will cost OSCO well over $2,000,000 in additional annual expenses by 2011.

It is interesting to note that in 1997 OSCO built its newest facility, which utilizes electricity for melting iron, in Ohio in AEP's service area because of the competitiveness of AEP's electric rates and the presumption that AEP would continue to manage its business in a cost-efficient manner. OSCO did not endorse deregulation back in the late 1990s because we believed our location along the Ohio River, in an epicenter of electric generation plants, would provide and sustain the competitive edge we desperately need in the globalized world economy.

In recent years AEP has been steadily and substantially raising the cost of electricity at the rate of 7% per year. In order to provide the PUCO a sense of what happens when OSCO raises its prices a mere fraction of the amount electric rates are increasing, the following are actual statements from our customers:

> *"We find your price increase of 1.80% most disturbing."*
>
> *"Our Company is not in a position to grant ANY price increases for 2009."*
>
> *"As you know the entire industry is down due to housing and there is no relief in sight."*
>
> *"Based on input from our management team any increase from a supplier must be market tested to insure viability of the request."*
>
> *"Over the past several months we have been contacted by several other suppliers looking for additional work with many stating they are producing at 60% of capacity. We both know that with blanket solicitation there will be a well qualified competitor willing to take the work that will have a positive result for our Company."*

Recognize that half the price increase OSCO is attempting to implement is due to higher energy costs, costs we are already absorbing. Imagine the reaction among our customers and the loss of business we will experience when we attempt to pass-on the proposed 15% annual increases.

I recently attended AEP's September 25, 2008 National Account Meeting in Columbus, OH. I was under the mistaken impression that the meeting was going to provide a detailed explanation and justification of AEP's Electric Security Plan (ESP) rate request. As it turned out there was only a mention of this gargantuan rate request in Mr. Morris' (AEP's President) statements. According to Mr. Morris, the 15% rate increase is necessary and this rate request has been presented to and will be considered by the PUCO. AEP typically has 8 to 10 rate requests in progress at any time. This is just part of their business. Mr. Morris wished his national account consumers well in the PUCO forum making it clear, at least to me, that his electric utility is steadfast and formidable and unless I can make a substantial commitment for legal representation and expert witnesses there is no compromise and no relief. The only justification Mr. Morris alluded to was market-based, i.e., AEP's rates are below average and even with these proposed increases their rates will still be average or below average. The meeting did not present the opportunity to educate AEP's President that the customers of AEP's industrial clients are scouring the world for the LOWEST prices and pursuing them. His simple explanation or justification of merely being at "average" or "below average" in price is not challenging his great corporation in the same manner his industrial customers are being challenged.

As you are probably in the best position to know, utilities are quite different from other corporations. First, a utility has a monopoly and is not exposed to direct or global competition. Second, a utility is not exposed to the same level of risk as a normal corporation. Some of their risk is mitigated by their regulated or semi-regulated status. Third, utilities have some very unique accounting practices.

Utilities avail themselves of very flexible accounting practices. As desired, certain earnings can be accelerated and similarly certain expenses can be deferred in such a manner that allows beneficial adjusting of finances. The allocation of corporate overhead always presents an interesting puzzle, made even more fascinating when the utility has operations in more than one state and engages in various segregated activities like generation service, transmission service, distribution service, customer charges and transition charges. Additionally, a utility can buy or sell power off their system in a fashion that can effectively shift benefits or confer subsidies to or from one group to another.

One has to question why AEP needs a base rate increase when there are so many riders and surcharges for cost recovery. AEP already has available a multitude of riders and surcharges to deflect various ongoing, programmatic and unexpected financial expenses and risks. These revenue sources are in addition to the direct rates. AEP enjoys a double benefit by inflating base rates and at the same time taking advantage of these other avenues to increase their revenue.

SB 221 contains a provision about "substantially excessive earnings". I understand that in response AEP has engaged an economist who has expressed expert opinion that earnings something North of 20% are not "excessive." We find this ridiculous. Perhaps this expert should reconsider their opinion in light of the current tumultuous financial developments.

OSCO has immense respect for its electrical energy supplier and is beholden to AEP for their assistance on a variety of occasions. However, the rate request submitted by AEP under the ESP plan is unfathomable! Are these proposed rates a negotiating tool, set artificially high, to achieve the desired rate of return after regulatory review? Is the basis of AEP's request derived from a market-based perception about rate equality? Is AEP loosening their internal control over their costs and need money to stop a hemorrhage? Whatever the underlying reason, AEP's rate request highlights a profound lack of understanding of the competitive environment within which AEP's industrial customers operate. Out here on "Main Street" we are facing devastating competition from foreign manufacturers. Any increase in our costs affects our competitiveness. As

OSCO

proposed, AEP's rate increase will definitely have a negative impact on our ability to compete.

Thank you for considering my comments.

Sincerely,

John Burke

John Burke
President