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June 28, 2011

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2011 JUN 30 PM 1:02
PUCO

Public Utilities Commission of Ohio
Attn: Docketing Division
RE: Case No. 11-346-EL-SSO
180 E. Broad Street, 13th Floor
Columbus, OH 43215-3793

RE: COMMENTS
Case No. 11-346-EL-SSO et al
AEP Electric Security Plan (ESP) Proposal

Dear PUCO:

OSCO Industries, Inc., headquartered in Portsmouth, OH is a retail customer of American Electric Power (AEP) and thus an interested party in AEPs Electric Security Plan (ESP) and Distribution Rate Case filing.

OSCO operates three iron foundries in South Central Ohio employing 360 people. Our primary products are residential and commercial heat pumps components. In 2010 our facilities collectively consumed about 72,000,000 KWh of electricity at an aggregate cost of $5,200,000. Our average cost for electricity was $0.0725 KWh., under GS-3 and GS-4 tariff schedules.

I appreciated the opportunity to address the PUCO at its public hearing held at the Whetstone Park of Roses Shelter House in Columbus, OH. There were numerous testimonials from various charities, development officials and parties encouraging/emphasizing certain AEP or alternative energy projects. While we support those efforts, our situation is very different. OSCO is an established manufacturing company that receives

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no benefits from subsidized energy costs, beneficial rates or tax abatement/incentives. We are besieged by both domestic and foreign competition and must keep the cost of our product as low as possible. As energy amounts to about 10% of the cost of our product, its price is extremely important! Distilled down to the most simple statement, we need the lowest possible rate for electricity to remain competitive and to retain the 350+ jobs we are currently providing.

Fourteen (14) years ago OSCO built a new manufacturing facility in New Boston, OH. That foundry uses electricity for melting iron. Our site selection was simple: it was close to home, we are in the midst of all the power plants built along the Ohio River and at the time AEP was the low cost provider. By locating in Ohio, in AEP territory, we tied our future to that of AEP. Based what has happened to our cost of electricity (i.e., increasing 7-8%/yr for several years, then escalating to about 10%/yr for the last two years) the future is not playing out as we had hoped. AEP's relentless increases in the price of electricity has had a significant negative impact on our competitiveness and has incentivized the consideration of competitive retail electric service providers as a necessary alternative.

Before commenting on the "new ESP" that proposes increased rates during the coming 29-month period, please keep in perspective an important outcome of the previously approved "old ESP." The rate increase allowed by the PUCO triggered "significantly excessive earnings" for AEP's Columbus Southern Power Company. The 17.6% return on equity threshold for "significantly excessive earnings" is by comparative standards (both within the utility industry and with various other industry sectors), a very generous return. Because their earnings were "significantly excessive" OSCO has to ask, and requests the PUCO do the same, what is the real legitimacy of AEP's need for large additional and continuing rate increases proposed in the new ESP?

In the "General Background" of the ESP filing AEP makes references to their historically low rates and their low cost of generation provided by coal-fired generation plants. AEP takes the position that the replacement of these plants and/or the upgrading of these plants to current environmental standards are going to result in higher prices for electricity. AEP's need to modernize and meet regulatory standards is in no way unique! Every business faces this same conundrum, but it is faced with much more uncertainty about the competitive and investment risks than a utility. In stark contrast, a utility is blessed with the business model insuring the recovery of their costs, through rate riders, all-the-while pushing for market rates over and above their generation costs. Unfortunately those higher rates passed onto their customers means less electricity sales, less competitiveness and less jobs.

We strongly feel that the ESP lacks economic transparency. The translation of its various proposals and riders into dollars and cents economics is extremely difficult. It would be helpful if the ESP filing included a financial tool to decipher the various proposals and riders so their impact can better be evaluated and prioritized. Examples: Is the "Rate Schedule Realignment" revenue neutral or does it conceal a general rates adjustment? If any or all of the proposed elements of the "Environmental Investment Carrying Cost Rider" are allowed what are the projected costs of each and how would those costs likely impact rates?

Second, in addition to the many current riders the ESP proposes many new, additional riders. It seems AEP is requesting complete and total recovery of any and all variable costs and any and all capital costs through all these special riders. Riders provide a guarantee of cost recovery in the event of a specific expense and significantly minimize or even eliminate risk. If riders are allowed, then general across-the-board increases in rate schedules should be minimized or mitigated.

OSCO is opposed to the Economic Development Rider and Growth Fund. During the last ESP cycle we learned about the sweetheart deal given to a company called Ormet within the AEP service area. It seems Ormet was preferentially provided low cost "subsidized" electrical power during the "Great Recession" and amidst AEP's 15%/15%/15% year-over-year-over-year rate proposal. As an AEP customer who also needs low rates to retain jobs and stay in business we do not want an economic development expense rolled into our electricity rate. The Development Rider and Growth Fund amounts to an inappropriate tax burden camouflaged as an electrical cost.

The "Facility Closure Cost Recovery Rider" is a fine example of AEP seeking cost recovery for the full spectrum of their decisions. For example: Didn't AEP make the decisions and establish the compensation and benefits they provided to their employees? Why then are AEP's customers being asked to bear, through this proposed rider, the full burden of the legacy pension and benefits for employees at facilities AEP closes? This essentially frees AEP from any financial responsibility for both their internal decisions and fluctuations in the financial markets.

Summing up, the proposed ESP appears to be escalating electricity rates toward a projected market-based rate while containing a plethora of riders that minimize risk through the recovery of any and all variable and capital costs. The business model appears simplistic: guaranteed cost recovery through the use of riders and push rates as high as the market will bear. This is an example of having your cake and eating it too!

In addition to the ESP filing AEP has simultaneously filed a request to increase its distribution rates as well. While there is increasing supplier competition for the sale of generation capacity we are without alternatives when it comes to distribution. Any increase in the distribution rates will

be felt immediately. We look to AEP to be as economical and efficient as possible in the management of their distribution network. Whether its generation or distribution it is still a cost element and that makes a difference.

We take to heart Mr. Hamrock's (AEP-Ohio President and COO) remarks about the difficult decisions AEP-Ohio faces. Congress and the federal regulatory agencies have been irresponsible in not providing clarity on major issues and we feel this is a main reason for the lack of economic growth. The massive size and multi-generational length of a utility's investments necessitates as clear and as concise a picture of the future as possible. The current sentiment is toward not allowing anything except alternative energy solutions and natural-gas power plants. For an energy-intensive industry like our own, this methodology is simply not realistic about the future need for power.

As I mentioned during last ESP cycle, OSCO has immense respect for AEP and is beholden to them for their assistance on a variety of occasions. We would much prefer to remain their loyal customer. However, the rapid escalation in the price of electricity has been distressing! Hopefully, both AEP and the PUCO understand the diabolical impact of this situation. We look to the PUCO to ferret out that delicate balance between AEP's ability to receive guaranteed cost recoveries and the pricing of the product in the continuum between their actual generation cost and the market price.

Thank you for considering my comments.

Sincerely,

John Burke

John Burke
President