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July 22, 2011

Public Utilities Commission of Ohio
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Columbus, Ohio 43215

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In re: Case No. 11-0346-EL-SSO, et. al.

Dear Sir/Madam:

Please find enclosed an original and twenty (20) copies each of the **DIRECT TESTIMONY AND EXHIBITS OF PEGGY R. CLAYTOR, LANE KOLLEN and STEPHEN J. BARON** on behalf of **THE OHIO ENERGY GROUP** to be filed in the above-referenced matter.

Copies have been served on all parties on the attached certificate of service. Please place this document of file.

Respectfully yours,



Michael L. Kurtz, Esq.

Kurt J. Boehm, Esq.

BOEHM, KURTZ & LOWRY

MLKkew

Encl.

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**BEFORE THE
PUBLIC UTILITY COMMISSION OF OHIO**

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In The Matter Of The Application Of Columbus Southern	:	
Power Company And Ohio Power Company For Authority	:	Case Nos. 11-0346-EL-SSO
To Establish A Standard Service Offer Pursuant To	:	11-0348-EL-SSO
4928.143, Ohio Rev. Code, In The Form Of An Electric	:	
Security Plan	:	

In The Matter Of The Application Of Columbus Southern	:	
Power Company And Ohio Power Company For Approval	:	Case Nos. 11-349-EL-AAM
Of Certain Accounting Authority	:	11-350-EL-AAM

DIRECT TESTIMONY OF PEGGY R. CLAYTOR

- 1 **Q. Please state your name, title and business address.**
- 2 **A. My name is Peggy R. Claytor. I am the Manager – State Government Affairs for The Timken**
3 **Company (“Timken”). My business address is 1835 Dueber Avenue S.W., Canton, Ohio 44706-**
4 **0932,**
- 5 **Q. Please describe your educational background.**
- 6 **A. I received a bachelor’s degree in industrial management and a Master of Business**
7 **Administration, both from Kent State University.**
- 8 **Q. What is your professional background?**
- 9 **A. I joined Timken in 1982 as a logistics associate in Canton, Ohio. Since that time, I have held**
10 **positions of Buyer; Senior Buyer; Senior Purchasing Agent; Project Manager – Procurement –**

1 Bearings – North and South America; Purchases Manager – Energy; Senior Government Affairs
2 Specialist; and Manager – State Government Affairs, my most recent position.

3 As the Purchases Manager – Energy, I was responsible for the acquisition of hundreds of
4 millions of dollars per year of energy purchases including electricity, natural gas, coal, propane
5 and fuel oils for all the U.S. Timken manufacturing facilities. In that capacity, I led and directed
6 the development and implementation of energy acquisition strategies and alternatives that
7 provided sustained competitive advantage, implemented a successful risk management program
8 for natural gas, and assumed a leadership role in influencing public policy related to energy
9 through regulatory and legislative initiatives at both the federal and state level.

10 I am a Board member and Vice-Chairman of Carolina Utility Customers' Association (NC), a
11 member of the South Carolina Energy Users Committee and the Industrial Energy Consumers of
12 America. I am a past chairman of: the Industrial Energy Users-OH; the National Association of
13 Manufacturers Electricity Task Force; the OMA Energy Resources Committee and the American
14 Iron & Steel Institute's Energy Committee.

15 **Q. What are your duties as the Manager – State Government Affairs?**

16 **A.** As Manager – State Government Affairs, I interact extensively and proactively with members of
17 the Ohio General Assembly and select regulatory agencies on matters that affect our
18 competitiveness. The price and availability of energy is one of those priority matters. In my role
19 as Manager – State Government Affairs, I followed Amended Substitute Senate Bill 221 ("S.B.
20 221") and actively participated in the Commission's rule making process which implemented
21 those provisions as part of industrial and manufacturer trade associations. Thus, I am very
22 familiar with the goals and mechanics of S.B. 221 as it applies to economic development and
23 conservation. Further, my prior experience as Purchases manager provided a solid understanding

1 of both the physical and financial energy markets. This proved quite helpful in assessing the
2 critical importance of reliable and reasonably priced energy and the relationship between energy
3 and economic development and job retention which is the core of the State's energy policy.

4 **Q. On whose behalf are you offering testimony?**

5 **A.** I am testifying on behalf of The Timken Company in support of the positions advanced by the
6 Ohio Energy Group ("OEG"), Timken is a member of OEG.

7 **Q. What is the purpose of your testimony?**

8 **A.** I have been asked to provide an overview of some of OEG's key recommendations from the
9 perspective of a very large energy intensive end use customer and in light of historical events.

10 **Q. Please provide an historical perspective.**

11 **A.** I have been involved in Ohio ratemaking proceedings for many years. In the late 1990's Ohio
12 joined a growing chorus of states which believed that competitive market pricing for electricity,
13 combined with stranded cost recovery, would set the stage for innovative price offerings and
14 savings for consumers while at the same time protecting utility shareholders. That belief led to
15 SB 3 in Ohio. But shortly thereafter the California melt down, including the bankruptcy of
16 *Pacific Gas & Electric* and the implosion of *Enron*, put an abrupt halt to the state deregulation
17 movement. SB 3 gave Ohio a five year transition to market pricing (2001-2005). But before the
18 end of the five year transition, this Commission properly concluded that a longer transition was
19 needed. This led to a series of Rate Stabilization Plans ("RSPs") covering the period 2006-2008.
20 The realization that the RSP plans would soon be ending was in large part the impetus for SB
21 221 in the Spring of 2008. SB 221 gives the Commission a great many ratemaking tools to
22 create a system that properly balances the interests of ratepayers and shareholders. But the

1 enforcement of SB 221 has not been easy. The Ohio Supreme Court has recently provided
2 guidance on the new law's meaning. Also, the severe new EPA regulations imposed on coal
3 generation has created additional uncertainties and costs. While the first round of Electric
4 Security Plans ("ESPs") in late 2008 were largely just continuations of the 2006-2008 RSPs, new
5 concepts may now be necessary to give Ohio a predictable and stable regulatory system.

6 **Q. Why is a predictable and stable regulatory system appropriate?**

7 **A.** The electric power industry has many features which are beyond the control of this Commission.
8 These include the cost of coal and natural gas, the wholesale market price for energy and
9 capacity and environmental requirements. But what this Commission can control is the process
10 by which rates are set for consumers who do not shop and the terms and conditions for retail
11 access for those who do. This process should provide stability and certainty so that a sustainable
12 balance between the interests of consumers and utility shareholders is achieved.

13 **Q. What elements of the OEG recommendation result in this sustainable balance?**

14 **A.** I believe that the overall package of recommendations sponsored by OEG witnesses Mr. Baron
15 and Mr. Kollen will result in a sustainable balance. But two of these recommendations are
16 particularly noteworthy. First, the equity stabilization plan offered by Mr. Kollen. This proposal
17 would stabilize pricing and enhance certainty by placing a floor and ceiling on the return-on-
18 equity of Ohio Power and Columbus Southern. This would minimize the need for additional
19 riders and provide an incentive for the utilities to control their costs. Second, the proposal of Mr.
20 Baron to dedicate to all consumers (shopping and non-shopping) the energy and capacity
21 (including environmental upgrades) of certain generating units over their useful lives would also
22 stabilize pricing and provide rate certainty. Of course, before such dedication this Commission
23 would have to first determine that it is prudent and least cost for consumers. But this option may

1 result in a win-win for consumers and the utility by avoiding the retirement of economic
2 generation due simply to regulatory uncertainty.

3 **Q. Are there other reasons why a more stable and predictable system is preferred?**

4 **A.** Yes. Electricity is a key component in steel making. The ability to predict and budget this cost
5 is important. It is also important to take a long term perspective because power plants are long
6 lived assets. It is not prudent to embrace full market pricing or fully regulated pricing because of
7 short term price changes. Allowing the Commission to approve the dedication of utility
8 generating assets to consumers on a cost-of-service basis, provided that the assets are least cost
9 and prudent, combined with the regulation of earnings within a floor and ceiling can provide a
10 stable long-term framework for the benefit of both the utility and consumers.

11 **Q. Does this conclude your testimony?**

12 **A.** Yes it does.