

PUBLIC VERSION

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

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In the Matter of the Commission Review of)
The Capacity Charges of Ohio Power) Case No. 10-2929-EL-UNC
Company and Columbus Southern Power)
Company.)

**CONFIDENTIAL DIRECT TESTIMONY OF OSCO INDUSTRIES, INC
ON BEHALF OF THE OHIO MANUFACTURERS' ASSOCIATION**

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**On behalf of The Ohio Manufacturers'
Association**

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1 I. INTRODUCTION

2 Q1. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

3 A1. My name is John Burke. My business address is 11th and Chillicothe Streets,
4 Portsmouth, Ohio 45662.

5 Q2. BY WHOM ARE YOU EMPLOYED AND IN WHAT POSITION?

6 A2. I am employed by OSCO Industries, Inc. ("OSCO") as the President.

7 Q3. ON WHOSE BEHALF ARE YOU OFFERING TESTIMONY?

8 A3. I am testifying on behalf of the Ohio Manufacturers' Association ("OMA") as a
9 result of our significant interest in issues that affect the price and availability of
10 electricity for our facilities in Ohio.

11 Q4. PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE.

12 A4. I have been employed by OSCO since October 1976. I am responsible for our
13 electricity management.

14 Q5. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PUBLIC
15 UTILITIES COMMISSION OF OHIO ("COMMISSION")?

16 A5. No.

17 Q6. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

18 A6. The purpose of my testimony is to discuss the impact that a \$355 per megawatt-
19 day ("MW-day") price for capacity will have on my business. Specifically, my
20 testimony describes OSCO's impact on the State and local economy, the
21 estimated impact on OSCO's electricity rate, how OSCO will likely have to

respond, and OSCO's ability to proactively mitigate the impact of the \$355/MW-day capacity cost.

Q7. DO YOU HOLD YOURSELF OUT AS OR CONSIDER YOURSELF AN EXPERT ON ELECTRICITY PRICING?

A7. No. I am simply describing the anticipated impact on my company of AEP-Ohio's request for the Commission to modify the state capacity compensation mechanism to a cost-based formula rate that results in capacity costs to competitive suppliers at a rate of \$355/MW-day.

II. CUSTOMER INFORMATION

Q8. PLEASE DESCRIBE YOUR COMPANY'S OHIO LOCATIONS AND THE NUMBER OF EMPLOYEES AT THOSE OHIO FACILITIES?

A8. OSCO has manufacturing plants in Jackson, New Boston and Portsmouth, Ohio with a combined total of 360 employees.

Q9. WHAT BENEFITS DOES YOUR COMPANY PROVIDE TO OHIO?

A9. OSCO's annual payroll exceeds \$[REDACTED] million annually. OSCO's hourly employees average \$[REDACTED]/hour with benefits and OSCO has 108 salaried employees. OSCO typically contributes \$[REDACTED]/year in state and local property taxes each year. OSCO also strives to purchase goods and services from local and Ohio businesses and does so in excess of \$[REDACTED] million per year. While OSCO is certainly not the largest employer or energy user in Ohio, OSCO has been a good and long time corporate citizen that strives to provide high

1 quality services and products and high quality manufacturing employment in
2 Ohio.

3 **Q10. PLEASE DESCRIBE THE IMPACT OF AEP-OHIO'S PROPOSAL ON OSCO.**

4 **A10.** Electricity is a significant cost for OSCO. We have shopped the generation
5 portion of our electric bills in recent years to take advantage of the attractive
6 market rates in order to continue to be competitive in our market sector. Under
7 AEP-Ohio's proposal, our competitive supplier will be compelled to pay a
8 \$355/MW-day capacity charge, which is significantly above market rates. This
9 above-market rate will be passed on to us. For OSCO, assuming we are
10 operating at full capacity, the difference between the market prices for capacity
11 and AEP-Ohio's proposed \$355/MW-day is approximately \$2,572,000 over the
12 next three years.

13 This will have a significant impact on OSCO. Specifically, this dramatic increase
14 in our electricity costs will make us less competitive in the market place as we
15 attempt to recover these costs in our product sales. We will have less funds for
16 capital investments, worker training, hiring of new employees, and retention of
17 existing employees.

18 **Q11. WHAT STEPS HAS OSCO TAKEN TO TRY TO MANAGE THE RISKS OF**
19 **ELECTRICITY PRICING VOLATILITY?**

20 **A11.** OSCO has engaged in negotiations with several competitive suppliers and
21 shopped the generation portion of our electric service for some time now in an
22 effort to proactively manage the risks. However, as I understand AEP-Ohio's

1 proposal, all competitive suppliers would have to pay AEP-Ohio the \$355/MW-
2 day price. Consequently, our competitive rates will be impacted as well even
3 though we were shopping well before September 2011. In other words, there
4 are no practical ways to mitigate the increase as AEP-Ohio's proposal inhibits
5 customers' ability to shop for alternative suppliers and save money. It also holds
6 customers captive to higher rates and essentially serves as a tax on shopping. If
7 the Commission approves AEP-Ohio's proposal and modifies the capacity cost
8 recovery mechanism, there will be a very high regulatory hurdle to doing
9 business in Ohio.

10 **III. CONCLUSION**

11 **Q12. WHAT CONCLUSIONS HAVE YOU REACHED ABOUT AEP-OHIO'S**
12 **PROPOSAL AND THE IMPACT ON YOUR COMPANY?**

13 **A12.** As a long-standing customer of AEP-Ohio, OSCO needs reliable service. We
14 also understand that AEP-Ohio needs to be fairly compensated for the service it
15 provides. However, when AEP-Ohio's proposal is viewed in the larger context,
16 we feel like AEP-Ohio charged market rates for capacity when the market rates
17 were above AEP-Ohio's costs but, now, when the market prices are at historic
18 lows, AEP-Ohio is using "costs" to justify rate increases. Worse yet, AEP-Ohio
19 will revert to market prices in 2015, when, as I understand it, market prices are
20 predicted to increase again. In other words, we think AEP-Ohio's proposal lacks
21 balance and fairness. This is particularly true when the proposal undermines our
22 ability to manage the risk of rate impacts by shopping with a competitive supplier.

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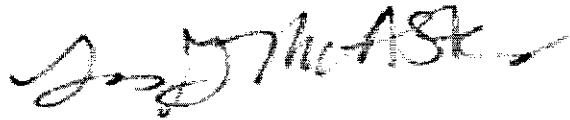
1 For these reasons, on behalf of OSCO and OMA, I respectfully request that the
2 Commission reject AEP-Ohio's proposal and revert back to using the PJM
3 market rate as the state capacity cost compensation mechanism.

4 **Q14. DOES THIS CONCLUDE YOUR TESTIMONY?**

5 **A14.** Yes, it does. I'd like to thank the Commission for the opportunity to provide
6 information about the impact on OSCO for the Commission's consideration.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing was served by mailing a true and correct copy via electronic mail, and by first-class postage prepaid mail, to all parties on this 5th day of April, 2012.



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