

PUBLIC VERSION

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

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

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**DIRECT TESTIMONY OF AMG VANADIUM INC. ON BEHALF OF
THE OHIO MANUFACTURERS' ASSOCIATION**

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

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I. INTRODUCTION

Q1. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A1. My name is Ed Forshey. My business address is 60790 Southgate Road, Cambridge, OH, 43725.

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

A2. I am employed by AMG Vanadium Inc. ("AMG") as Director of Energy and Asset Management.

Q3. ON WHOSE BEHALF ARE YOU OFFERING TESTIMONY?

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

Q4. PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE.

A4. I am employed by AMG as the Director of Energy and Asset Management responsible for energy procurement and capital projects.

I have been employed by AMG since March 1, 2007, and had previously spent over 40 years in various positions involving some or all of these functions, in corporations related to the manufacturing industry.

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

A5. No.

Q6. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

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A6. The purpose of my testimony is to discuss the impact that a \$355 per megawatt-day ("MW-day") price for capacity will have on my business. Specifically, my testimony discusses AMG's impact on the State and local economy, the estimated impact on AMG's electricity rate, how AMG will likely have to respond, and AMG'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 AMG 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 AMG'S OHIO LOCATION AND THE NUMBER OF EMPLOYEES AT THE OHIO FACILITY?

A8. AMG manufacturers in Cambridge, OH with a combined total of 127 employees.

Q9. WHAT BENEFITS DOES AMG PROVIDE TO OHIO?

A9. AMG's annual payroll exceeds \$■ million annually. AMG's hourly employees average \$■ an hour and AMG has 48 salaried employees. AMG typically contributes \$■/year in state and local property taxes each year. AMG also strives to purchase goods and services from local and Ohio businesses and does so in excess of \$■ million per year. While AMG is certainly not the largest

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employer or energy user in Ohio, AMG has been a good and long time corporate citizen that strives to provide high quality services and products and high quality manufacturing employment in Ohio.

Q10. PLEASE DESCRIBE THE IMPACT OF AEP-OHIO'S PROPOSAL ON AMG.

A10. Electricity is a significant cost for AMG. While we have not shopped our electric rate at this time I understand that under AEP-Ohio's proposal, if we shopped, our competitive supplier will be compelled to pay a \$355/MW-day capacity charge, which is significantly above market rates. This above-market rate would likely be passed on to us. For AMG, the difference between the market prices for capacity and AEP-Ohio's proposed \$355/MW-day is approximately \$2,343,405 over the next three years.

This will have a significant impact on AMG. Specifically, the inability to proactively manage our electricity costs creates operational strain on AMG as we typically cannot recover these costs in our product sales. This operational strain results in reduced competitiveness for our operations in Ohio. We will have less funds for capital investments, worker training, hiring of new employees, and retention of existing employees.

Q11. WHAT STEPS HAS AMG TAKEN TO TRY TO MANAGE THE RISKS OF ELECTRICITY PRICING VOLATILITY?

A11. AMG has engaged in negotiations with several competitive suppliers in an attempt to shop the generation portion of our electric service in an effort to proactively manage the risks. However, the uncertainty created by AEP-Ohio's

various proposals, including the current two-tiered capacity pricing, has made it difficult if not impossible to predict the rates for even a short-term forward period. The result of the uncertainty is that we have not been able to enter into an agreement with a competitive supplier. However, as I understand AEP-Ohio's proposal, even if we were to competitive source our generation, our competitive supplier would have to pay AEP-Ohio the \$355/MW-day price. In other words, there are no practical ways to mitigate the increase as AEP-Ohio's proposal inhibits customers' ability to shop for alternative suppliers and save money. It also holds customers captive to higher rates and essentially serves as a tax on shopping. If the Commission approves AEP-Ohio's proposal and modifies the capacity cost recovery mechanism, there will be a very high regulatory hurdle to doing business in Ohio.

III. CONCLUSION

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

A12. As a long-standing customer of AEP-Ohio, AMG needs reliable service. We also understand that AEP-Ohio needs to be fairly compensated for the service it provides. However, when AEP-Ohio's proposal is viewed in the larger context, we feel like AEP-Ohio charged market rates for capacity when the market rates were above AEP-Ohio's costs but, now, when the market prices are at historic lows, AEP-Ohio is using "costs" to justify rate increases. Worse yet, AEP-Ohio will revert to market prices in 2015, when, as I understand it, market prices are predicted to increase again. In other words, we think AEP-Ohio's proposal lacks

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balance and fairness. This is particularly true when the proposal undermines our ability to manage the risk of rate impacts by shopping with a competitive supplier.

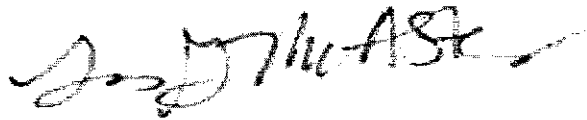
For these reasons, on behalf of AMG and OMA, I respectfully request that the Commission reject AEP-Ohio's proposal and revert back to using the PJM market rate as the state capacity cost compensation mechanism.

Q14. DOES THIS CONCLUDE YOUR TESTIMONY?

A14. Yes, it does. I'd like to thank the Commission for the opportunity to provide information about the impact on AMG 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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