

PUBLIC – REDACTED VERSION

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of)
Columbus Southern Power Company and)
Ohio Power Company for Authority to) Case No. 11-346-EL-SSO
Establish a Standard Service Offer) Case No. 11-348-EL-SSO
Pursuant to §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) Case No. 11-349-EL-AAM
Ohio Power Company for Approval of) Case No. 11-350-EL-AAM
Certain Accounting Authority.)

**DIRECT TESTIMONY OF AMG VANADIUM INC.
ON BEHALF OF THE OMA ENERGY GROUP**

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On behalf of the OMA Energy Group

1 **I. INTRODUCTION**

2 **Q1. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

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

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

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

8 **Q3. ON WHOSE BEHALF ARE YOU OFFERING TESTIMONY?**

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

12 **Q4. PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE.**

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

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

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

20 A5. Yes. I testified in Case No. 10-2929-EL-UNC related to the impact of AEP-
21 Ohio's capacity cost proposal on my company.

22 **Q6. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

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1 A6. The purpose of my testimony is to discuss the impact on my company of AEP-
2 Ohio's proposals for pricing capacity and the Retail Stability Rider ("RSR").
3 Specifically, my testimony describes AMG's impact on the State and local
4 economy, the estimated impact of the capacity price proposal and the RSR
5 would have on AMG's electricity rate, how AMG will likely have to respond, and
6 AMG's ability to proactively mitigate the impact of the capacity cost and RSR
7 proposals.

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

10 A7. No. I am simply describing the anticipated impact on my company of AEP-
11 Ohio's capacity proposals and the RSR.

12 **II. CUSTOMER INFORMATION**

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

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

16 **Q9. WHAT BENEFITS DOES AMG PROVIDE TO OHIO?**

17 A9. AMG's annual payroll exceeds \$■ million annually. AMG's hourly employees
18 average \$■ an hour and AMG has ■ salaried employees. AMG typically
19 contributes \$■/year in state and local property taxes each year. AMG also
20 strives to purchase goods and services from local and Ohio businesses and
21 does so in excess of \$■ million per year. While AMG is certainly not the largest
22 employer or energy user in Ohio, AMG has been a good and long time corporate

1 citizen that strives to provide high quality services and products and high quality
2 manufacturing employment in Ohio.

3 **III. IMPACT OF AEP-OHIO'S ESP CAPACITY PRICE PROPOSAL AND RSR.**

4 **Q10. PLEASE DESCRIBE YOUR UNDERSTANDING OF AEP-OHIO'S CAPACITY**
5 **PRICING PROPOSAL.**

6 A10. It is my understanding that for shopping customers, AEP-Ohio would charge
7 competitive retail electric service ("CRES") providers one of three prices
8 depending on the outcome of this case and AEP-Ohio's application for corporate
9 separation. AEP-Ohio's first option is to charge CRES providers for all shopping
10 customers \$355 per megawatt-day ("MW-day") for using AEP-Ohio's capacity.
11 Alternatively, from 2012 through May 31, 2013, AEP-Ohio will charge CRES
12 providers who supply the first 21% of shopping customers, by class, \$146 per
13 MW-day and \$255 per MW-day for the remainder of shopping customers, without
14 any scaling factors, through January 1, 2015. The percentage of customers who
15 may get the lower, "first tier" capacity pricing increases to 31% on June 1, 2013
16 through May 31, 2014 and increase to 41% on June 1, 2014 through December
17 1, 2015. Then, if full corporate separation is achieved, AEP-Ohio will charge
18 CRES providers the PJM reliability pricing model ("RPM") price for capacity for
19 all shopping customers starting on January 1, 2015 at the earliest or June 1,
20 2015 at the latest.

21 **Q11. DO YOU KNOW WHAT THE PJM RPM PRICES FOR CAPACITY FOR THAT**
22 **SAME PERIOD ARE?**

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A11. I am generally aware that they are around \$17 per MW-day for June 1, 2012 through May 31, 2013, \$27 per MW-day for the following 12 months and \$126 per MW-day for the following twelve months. No one knows the price for June 1, 2015 and beyond as the PJM RPM auctions have not been conducted yet, but my understanding is that the prices are anticipated to increase.

Q12. PLEASE DESCRIBE THE IMPACT OF AEP-OHIO'S CAPACITY PRICING PROPOSAL ON AMG.

A12. 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 either \$255/MW-day or \$355/MW-day capacity charge, which is significantly above the PJM RPM price.

The difference between the PJM RPM price and the AEP-Ohio capacity charge will be passed on to us. For AMG, we have determined that the difference between the PJM RPM price for capacity and AEP-Ohio's proposed capacity rates are as follows over the next three years:

Difference between RPM and \$355/MW-D	Difference between RPM and \$255/MW-D	Difference between RPM and \$146/MW-D
\$2,345,000	\$1,530,000	\$642,750

I included the comparison of \$146/MW-day over three years for the Commission's review even though I recognize that it is unlikely that AMG would get that price under AEP-Ohio's proposal certainly in the first year of the ESP and perhaps for the duration of the ESP.

Q13. PLEASE DESCRIBE YOUR UNDERSTANDING OF AEP-OHIO'S RSR.

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1 A13. My understanding of the RSP is a that it is designed to ensure AEP-Ohio
2 receives enough revenue to earn a return on equity of 10.5% in spite of AEP-
3 Ohio's claimed losses on capacity costs. In other words, since AEP-Ohio is
4 collecting less than its claimed cost of capacity from CRES providers, AEP-Ohio
5 will charge all customers, whether shopping or not, a per kilowatt-hour ("kWh")
6 charge, in order to make up for the loss. I also understand that there will be a
7 final true-up of the RSR to make sure AEP-Ohio did not under- or over-collect
8 the amount of revenue necessary to hit 10.5% return on equity.

9 **Q14. PLEASE DESCRIBE THE IMPACT OF AEP-OHIO'S RSR ON AMG.**

10 A14. AMG uses approximately [REDACTED] kWh on an annual basis. Thus, over a
11 three year ESP, the RSR alone would cost AMG over \$[REDACTED] whether AMG is
12 shopping or not.

13 **Q15. PLEASE DESCRIBE THE COMBINED IMPACT OF AEP-OHIO'S CAPACITY**
14 **PRICING PROPOSAL AND THE RSR ON AMG.**

15 A15. Combined, over the three year ESP, depending on the capacity price, the impact
16 on AMG's operations will be approximately \$[REDACTED], \$[REDACTED], or \$[REDACTED].

17 **Q16. HAS AMG TAKEN ANY STEPS TO PROACTIVELY MANAGE ITS ELECTRIC**
18 **PRICING?**

19 A16. Yes. Electricity is a significant cost for AMG. AMG has engaged in negotiations
20 with several competitive suppliers in an attempt to shop the generation portion of
21 our electric service in an effort to proactively manage the risks. However, the
22 uncertainty created by AEP-Ohio's various proposals, including the current two-
23 tiered capacity pricing, has made it difficult if not impossible to predict the rates

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1 for even a short-term forward period. The result of the uncertainty is that we
2 have not been able to enter into an agreement with a competitive supplier.
3 However, as I understand AEP-Ohio's proposal, even if we were to competitive
4 source our generation, our competitive supplier would have to pay AEP-Ohio
5 somewhere between \$146/MW-day and \$355/MW-day for capacity. In other
6 words, there are no practical ways to mitigate the increase as AEP-Ohio's
7 proposal inhibits customers' ability to shop for alternative suppliers and save
8 money. It also holds customers captive to higher rates and essentially serves as
9 a tax on shopping.

10 **Q17. PLEASE DESCRIBE THE IMPACT ON AMG OF AEP-OHIO'S CAPACITY**
11 **COST PROPOSAL AND THE RSR.**

12 A17. This will have a significant impact on AMG. Specifically, our product pricing and
13 sales are dictated by market and change monthly. Power makes up 20% of our
14 operating costs and, if that cost increases 8-20% based on our calculations in
15 this testimony, then our total costs will increase 2-5%. AMG is not able to pass
16 these additional costs through to our customers. If any of our vendors were to
17 tell us they were increasing our costs this significantly, we would change vendors
18 immediately. However, as discussed above, with electricity, we do not have that
19 option. The potential result is that we will shift future investments, and, ultimately,
20 relocate all operations, to our sister operation overseas with the current
21 capability to produce the same products, but on a smaller scale. With the
22 compounding electricity price increases we have experienced the last few years

combined with our projections going forward, relocation of manufacturing overseas becomes a much more viable option.

III. CONCLUSION

Q18. WHAT CONCLUSIONS HAVE YOU REACHED ABOUT AEP-OHIO'S CAPACITY PRICING PROPOSALS?

A18. 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 used the PJM RPM to price capacity when the PJM rates were above AEP-Ohio's costs but, now, when the PJM RPM auction prices are at historic lows, AEP-Ohio is using "costs" to justify rate increases. Worse yet, AEP-Ohio will revert to using the PJM RPM auction to price capacity again in 2015, when, as I understand it, those prices are predicted to increase again. In other words, we think AEP-Ohio's proposal lacks 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.

Q19. AEP-OHIO HAS ARGUED THAT THE RSR HAS CUSTOMER BENEFITS, INCLUDING, PROVIDING CUSTOMERS WITH PRICE-TO-COMPARE DATA THAT IS TRANSPARENT, STABLE AND PREDICTABLE, AND PROVIDING FOR PRICING THAT IS MODERATE IN NATURE AND PROTECTS CERTAIN "AT RISK POPULATIONS" AND MANUFACTURING CUSTOMERS. DO YOU AGREE?

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1 A19. No. While an identical RSR charge for all customers that remains the same over
2 the entire ESP period is stable as it is fixed, because it is the same for shopping
3 and non-shopping customers, it would not be part of the price to compare. More
4 importantly, as I have discussed, the RSR certainly does not provide for pricing
5 that is moderate in nature and hurts, rather than helps, manufacturers.
6 Specifically, AEP-Ohio appears to be portraying its capacity pricing proposal,
7 which it states provides significantly discounted capacity from what AEP-Ohio
8 would otherwise be willing to charge, as a benefit to customers that would not
9 otherwise be achievable without the RSR. However, the starting point should
10 be the PJM RPM price because it is what customers would otherwise pay or
11 what served as the basis for capacity pricing in the negotiated rate of shopping
12 customers. Thus, when the issue is properly framed, it is clear that AEP-Ohio's
13 capacity pricing proposal is actually a significant increase – not a discount.
14 Piling on the RSR to shopping and non-shopping customers to make AEP-Ohio
15 whole for its fully loaded capacity costs only serves to make all AEP-Ohio
16 customers worse off than its above-market capacity pricing proposal alone.
17 When properly framed that way, I see no way that the combination of the
18 capacity pricing proposal and the RSR provide pricing that is moderate in
19 nature.

20 **Q20. PLEASE SUMMARIZE YOUR CONCLUSIONS.**

21 A20. For the reasons I discussed, AEP-Ohio's capacity pricing proposal is not
22 reasonable and should be rejected. Similarly, AEP-Ohio's RSR is not

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1 reasonable and should be rejected. The Commission should revert back to
2 using the PJM market rate as the state capacity cost compensation mechanism.

3 **Q21. DOES THIS CONCLUDE YOUR TESTIMONY?**

4 A21. Yes, it does. I'd like to thank the Commission for the opportunity to provide
5 information about the impact on AMG for the Commission's consideration.

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CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of the foregoing Testimony was served upon the parties of record listed below this 4th day of May 2012 via electronic mail.



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Summary: Testimony of AMG Vanadium, Inc. (Public - Redacted Version) on behalf of The OMA Energy Group electronically filed by Teresa Orahod on behalf of The OMA Energy Group