

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 THE LIMA REFINING COMPANY
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 Richard J. Walters, Sr. My business address is 1150 South Metcalf
4 Street, Lima, Ohio 45804-1145

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

6 A2. I am employed by Lima Refining Company ("Lima") as the Plant Controller.

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

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

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

12 A4. I have been employed by Lima Refinery since May 2000 and have spent my
13 entire career of over 29 years in the manufacturing industry.

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

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

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

19 A6. The purpose of my testimony is to discuss the impact on my company of AEP-
20 Ohio's proposals for pricing capacity and the Retail Stability Rider ("RSR").
21 Specifically, my testimony describes Lima's impact on the State and local
22 economy, the estimated impact of the capacity price proposal and the RSR
23 would have on Lima's electricity rate, how Lima will likely have to respond, and

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Lima's ability to proactively mitigate the impact of the capacity cost and RSR proposals.

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 capacity proposals and he RSR.

II. CUSTOMER INFORMATION

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

A8. Lima has manufacturing plants in Lima and Dublin, Ohio with a combined total of 457 employees.

Q9. WHAT BENEFITS DOES YOUR COMPANY PROVIDE TO OHIO?

A9. Our annual payroll exceeds \$[REDACTED] million annually. Lima's hourly employees average \$[REDACTED]/year with benefits and Lima has [REDACTED] salaried employees. Besides this employee base, we effectively employ an estimated [REDACTED]+ contractor work force on a daily basis. Lima typically contributes over \$[REDACTED] million annually in commercial activity tax as well as an estimated \$[REDACTED]/year in state and local property taxes. Lima also purchases millions of dollars in goods and services from local and Ohio businesses. Lima 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.

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

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

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

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

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 LIMA.

A12. Electricity is a significant cost for Lima, and we have shopped the generation portion of our electric bills in recent years to take advantage of the attractive market rates available and maintain a stable price in order to continue to be competitive in our market sector.

Under AEP-Ohio's proposal, our competitive supplier will be compelled to pay either \$355-MW-day, \$255 per MW-day or \$145 per MW-day for a capacity charge. The difference between the PJM RPM price and the AEP-Ohio capacity charge will be passed on to us. For Lima, 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 |
|---------------------------------------|---------------------------------------|---------------------------------------|
| Between \$41-51 million | \$26.8 million | \$11.3 million |

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

A13. My understanding of the RSR is a that it is designed to ensure AEP-Ohio receives enough revenue to earn a return on equity of 10.5% in spite of AEP-Ohio's claimed losses on capacity costs. In other words, since AEP-Ohio is collecting less than its claimed cost of capacity from CRES providers, AEP-Ohio will charge all customers, whether shopping or not, a per kilowatt-hour ("kWh")

charge, in order to make up for the loss. I also understand that there will be a final true-up of the RSR to make sure AEP-Ohio did not under- or over-collect the amount of revenue necessary to hit 10.5% return on equity.

Q14. PLEASE DESCRIBE THE IMPACT OF AEP-OHIO'S RSR ON LIMA.

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

Q15. PLEASE DESCRIBE THE COMBINED IMPACT OF AEP-OHIO'S CAPACITY PRICING PROPOSAL AND THE RSR ON LIMA.

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

Q16. HAS LIMA TAKEN ANY STEPS TO PROACTIVELY MANAGE ITS ELECTRIC PRICING?

A16. Yes. Electricity is a significant cost for Lima, and we have shopped the generation portion of our electric bills in recent years to take advantage of the attractive market rates in order to continue to be competitive in our market sector. However, as I understand AEP-Ohio's proposal on capacity pricing and the RSR, even shopping customers, like Lima, will pay. In other words, AEP-Ohio's proposal thwarts our efforts to proactively manage our electricity costs and there are no practical ways to mitigate the increases. These proposals hold customers captive to higher rates and essentially serve as a tax on shopping. The proposal also appears to effectively negate any of the perceived benefits of shopping.

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

A17. The proposals separately and together create a significant operational strain on Lima due to the dramatic increase to our expenses. Electricity already represents a full █% of our total operating expenses, which run into the multiple millions of dollars. Since 2008, Lima has seen incredible increases in overall electric rates. While electric consumption has grown only █% the costs have increased 34% from \$█ million in annual spend in 2008 to \$█ million in annual spend in 2011. Under the proposed capacity rate of \$355 per MW-day the cost increase will soar to an incredible 78% since 2008.

These proposals will make us significantly less competitive in our industry. Given the nature of our business, we are totally dependent on the external market conditions in play on a daily basis that effectively set the market price for our products. We have no avenue (unlike AEP) to attempt to pass these costs on to our customers through our product sales. Our business is extremely capital intensive and any large increase to operating expense will give us less cash flow to fund crucial capital investments, as well as process improvements, worker training, hiring of new employees, and retention of existing employees.

Our industry has been faced with an enormous amount of competitive and regulatory pressures during the 12 years that I have been in this business. Many refineries have been shuttered during this timeframe and, within the last year, five more were announced of which I'm aware. Lima is one of only four refineries in the state of Ohio. Our previous owner was poised to close the

1 facility due to competitive pressures they faced in 1998 before a new owner,
2 Clark Refining, made the purchase at a heavily discounted price. Since that time
3 we have weathered three ownership changes while continuing to make a
4 significant positive impact to the local and state economies. We believe this is
5 due to the ongoing dedication of an excellent workforce dedicated to their
6 profession and the Lima Refinery.

7 **III. CONCLUSION**

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

10 A18. As a long-standing customer of AEP-Ohio, Lima needs reliable service. We also
11 understand that AEP-Ohio needs to be fairly compensated for the service it
12 provides. However, when AEP-Ohio's proposal is viewed in the larger context,
13 we feel like AEP-Ohio used the PJM RPM to price capacity when the PJM rates
14 were above AEP-Ohio's costs but, now, when the PJM RPM auction prices are
15 at historic lows, AEP-Ohio is using "costs" to justify rate increases. Worse yet,
16 AEP-Ohio will revert to using the PJM RPM auction to price capacity again in
17 2015, when, as I understand it, those prices are predicted to increase again. In
18 other words, we think AEP-Ohio's proposal lacks balance and fairness. This is
19 particularly true when the proposal undermines our ability to manage the risk of
20 rate impacts by shopping with a competitive supplier.

21 **Q19. AEP-OHIO HAS ARGUED THAT THE RSR HAS CUSTOMER BENEFITS,**
22 **INCLUDING, PROVIDING CUSTOMERS WITH PRICE-TO-COMPARE DATA**
23 **THAT IS TRANSPARENT, STABLE AND PREDICTABLE, AND PROVIDING**

1 **FOR PRICING THAT IS MODERATE IN NATURE AND PROTECTS CERTAIN**
2 **“AT RISK POPULATIONS” AND MANUFACTURING CUSTOMERS. DO YOU**
3 **AGREE?**

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

23 **Q20. PLEASE SUMMARIZE YOUR CONCLUSIONS.**

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1 A20. For the reasons I discussed, AEP-Ohio's capacity pricing proposal is not
2 reasonable and should be rejected. Similarly, AEP-Ohio's RSR is not
3 reasonable and should be rejected. The Commission should revert back to
4 using the PJM market rate as the state capacity cost compensation mechanism.

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

6 A21. Yes, it does. I'd like to thank the Commission for the opportunity to provide
7 information about the impact on Lima 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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Case No(s). 11-0346-EL-SSO, 11-0348-EL-SSO, 11-0349-EL-AAM, 11-0350-EL-AAM

Summary: Testimony of Lima Refining Company (Public - Redacted Version) on behalf of The OMA Energy Group electronically filed by Teresa Orahod on behalf of The OMA Energy Group