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BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application for)
Establishment of a Reasonable)
Arrangement Between ASHTA) Case No. 12-1494-EL-AEC
Chemicals Inc. and The Cleveland)
Electric Illuminating Company.)

DIRECT TESTIMONY OF
RICHARD L. JACKSON

PUBLIC VERSION

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Samuel C. Randazzo, Trial Attorney
Scott E. Elisar
MCNEES WALLACE & NURICK LLC
21 East State Street, 17th Floor
Columbus, OH 43215-4228
Telephone: (614) 469-8000
Telecopier: (614) 469-4653
sam@mwncmh.com
selisar@mwncmh.com

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Attorneys for ASHTA Chemicals Inc.

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**DIRECT TESTIMONY OF
RICHARD L. JACKSON**

1 **Q1. Please state your name, business address, title and the purpose of your**
2 **testimony.**

3 A1. My name is Richard L. Jackson and my business address is 3509 Middle Road,
4 Ashtabula, Ohio. I am Executive Vice President of Operations for ASHTA
5 Chemicals Inc. ("ASHTA"). The purpose of my testimony is to provide
6 information regarding the application for a reasonable arrangement which
7 ASHTA requests that the Public Utilities Commission of Ohio ("Commission")
8 approve in this proceeding.

9 **Q2. Please describe your responsibilities with ASHTA and your background**
10 **and experience.**

11 A2. As Executive Vice President of Operations, I am responsible for all aspects of
12 plant operations for ASHTA including: assuring compliance with environmental,
13 health and safety regulations and the protection of our employees and other local

1 stakeholders; overseeing and providing guidance to managers in many functional
2 areas such as production, maintenance, engineering, quality assurance and
3 project management. In addition, since 2002, I have been responsible for
4 evaluating supply options and procuring electrical supply for our facility.

5 **Q3. Is ASHTA a “mercantile customer”?**

6 A3. ASHTA's manufacturing operations and corporate offices in Ashtabula use in
7 excess of [begin confidential] [end confidential] kilowatt-hours (“kWh”) of
8 electricity annually and it is my understanding that ASHTA is a “mercantile
9 customer” as defined by Ohio law.

10 **Q4. Please describe ASHTA’s current operations in Ashtabula.**

11 A4. ASHTA's Ashtabula plant produces products that are sold directly to customers
12 throughout the United States and Canada or sold through distributors to a wide
13 variety of customers and end users. It currently employs directly approximately
14 [begin confidential] [end confidential] people and its business activity supports
15 another [begin confidential] [end confidential] indirect full-time equivalent
16 people, with a combined annual payroll of approximately [begin confidential]
17 million.¹ [end confidential] ASHTA pays about [begin confidential] [end
18 confidential] annually in state and local taxes.

19 **Q5. Why is ASHTA seeking a “reasonable arrangement”?**

¹ Indirect employment is a reference to jobs that are associated with work performed by third-party contractors or vendors at or near ASHTA's manufacturing facilities.

A5. ASHTA's current manufacturing facility in Ashtabula is located on 22 acres within the 95 acres owned by ASHTA. Manufacturing at the site began in the 1950s when it was owned and opened by Union Carbide. ASHTA is a producer and marketer of chlorine and potassium-based inorganic chemicals, primarily potassium hydroxide ("KOH"). More specifically, the facility produces liquid KOH that is used in fertilizers, deicers, water treatment, cleaners, batteries, herbicides and potassium chemicals. It produces liquid potassium carbonate that is used in fertilizers, agricultural chemicals, photography, food, pharmaceuticals and the oil and gas sectors. It also produces chloropicrin and chlorine.

ASHTA is evaluating a potential transformation of its manufacturing process and the opportunity to implement this transformation at its current Ohio location. A successful transformation at the Ohio location is probable provided that ASHTA can secure a reliable supply of electricity pursuant to terms and conditions that will provide ASHTA with a reasonable and predictable price over a term that will allow ASHTA to make the estimated [begin confidential] [end confidential] capital investment to transform the current manufacturing process, [begin confidential] . [end confidential]

A successful transformation will position ASHTA's Ohio manufacturing facility to be viable for many years, allow for operational and environmental performance improvements, sustain current employment and likely expand ASHTA's direct employment by [begin confidential]

[end confidential] Without the transformation that ASHTA hopes to accomplish in Ohio, the current manufacturing process and the employment

(direct and indirect) are not sustainable. The cost of electricity makes up [begin confidential] [end confidential] of ASHTA's total variable cost of production. ASHTA has requested a reasonable arrangement to obtain a reasonable and predictable price over a term that will allow ASHTA to make the [begin confidential] [end confidential] capital investment that is required to transform the current manufacturing process, sustain and somewhat increase current employment and position the facility for expansion in the future.

Q6. Please describe ASHTA's current electricity load and usage characteristics and the changes that will take place as a result of transforming the current manufacturing process.

A6. ASHTA is a distribution service customer of The Cleveland Electric Illuminating Company ("CEI") and is served at [begin confidential] [end confidential]. Electricity is delivered to a substation owned by ASHTA. At ASHTA's substation, ASHTA transforms the electricity received from CEI through transformation equipment that is also owned by ASHTA.

The new chlorine production technology [begin confidential]

[end confidential] ASHTA's current maximum demand is [begin confidential]

1 [end confidential] and we estimate that the maximum demand will be
2 [begin confidential] [end confidential] if the transformation occurs at the
3 existing manufacturing facility. [begin confidential]
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8 [end confidential]

9 If the transformation occurs at the Ashtabula facility, we estimate that ASHTA will
10 be able to [begin confidential]
11
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13 [end confidential]

14 **Q7. What is the length of the reasonable arrangement that ASHTA is asking the**
15 **Commission to approve?**

16 A7. ASHTA is seeking a ten-year reasonable arrangement commencing with the
17 commercial operation date of the [begin confidential] . [end
18 confidential] A term of ten years will facilitate ASHTA's efforts to develop pro-
19 forma operating data used to secure financing for the capital investment. As
20 indicated above, the delivered cost of electricity is a large part of ASHTA's total
21 variable cost of production. Uncertainty regarding the delivered cost of electricity
22 or a delivered cost of electricity that puts the Ashtabula location at a competitive

disadvantage will work against ASHTA's ability to transform its manufacturing process at the current location.

Q8. What is ASHTA's delivered cost of electricity target over the proposed term of the reasonable arrangement?

A8. Given the significance of the delivered cost of electricity relative to ASHTA's total variable cost of production, the estimated delivered cost of electricity to ASHTA's competitors, the delivered cost of electricity and other advantages available should ASHTA relocate its manufacturing facilities, and ASHTA's willingness and ability to operate substantially outside the peak hours that drive the capacity resource obligation determined by PJM and the peak used as the billing determinant for transmission service, ASHTA's delivered cost of electricity target is [begin confidential] . [end confidential]

Q9. Please describe the overall structure of the reasonable arrangement.

A9. The reasonable arrangement I describe below reflects changes that have been made based on the comments provided by the Commission's Staff and CEI. There are four basic parts to the reasonable arrangement: (1) distribution; (2) transmission; (3) generation; and, (4) energy efficiency, peak demand reduction and advanced energy resources.

For the distribution component, the reasonable arrangement would subject ASHTA to the rates, terms and conditions of the otherwise applicable distribution rate schedule.

1 For the transmission component, the reasonable arrangement would exempt
2 ASHTA from Rider NMB so that ASHTA would pay for transmission service
3 through its competitive retail electric service ("CRES") provider, who would be
4 billed for transmission service by PJM on behalf of ASHTA. The zonal single
5 coincident peak billing determinant that I understand is used by PJM as a
6 transmission billing determinant would provide ASHTA with a better ability to
7 manage its electricity load and usage so as to not contribute to the coincident
8 peak.

9 For the generation component, the reasonable arrangement would cause ASHTA
10 to continue to competitively source capacity and energy and pay the competitive
11 supplier selected by ASHTA in accordance with the competitive supply contract.

12 For the energy efficiency, peak demand reduction and advanced energy
13 resources component, the reasonable arrangement would: (a) cause ASHTA to
14 commit its peak demand response capabilities to CEI in exchange for an
15 exemption from CEI's rider to collect its energy efficiency and peak demand
16 portfolio compliance costs; (b) cause the payment CEI makes to ASHTA for
17 committing ASHTA's demand response to be recoverable as a cost of
18 compliance with Ohio's portfolio requirements; (c) cause ASHTA to commit the
19 energy efficiency gain [begin confidential]

20 [end confidential] to CEI; (d) allow CEI to count this energy efficiency gain for
21 purposes of hitting its energy efficiency compliance benchmark; (e) cause
22 ASHTA to commit its waste energy recovery capability to CEI; (f) allow CEI to
23 count this advanced energy and renewable resource for purposes of hitting its

1 compliance benchmark; and, (g) exempt ASHTA from the advanced energy,
2 energy efficiency and peak demand response cost recovery mechanisms in
3 exchange for the commitment of ASHTA's customer-sited capabilities.

4 **Q10. If the reasonable arrangement you have described is approved by the**
5 **Commission, will it be necessary for CEI to secure approval to recover**
6 **"delta revenue" or the difference between the otherwise applicable rate and**
7 **the rate charged under the reasonable arrangement?**

8 A10. It is my understanding that it will not be necessary. More specifically, it is my
9 understanding that ASHTA will pay the otherwise applicable rate for any
10 distribution service provided by CEI. CEI's total transmission revenue
11 requirement for the portion of transmission service billed by CEI will be recovered
12 through the existing transmission cost recovery mechanism. ASHTA will pay for
13 generation supply and the competitive portion of transmission service in
14 accordance with its competitively sourced supply contract. ASHTA will be
15 committing its mercantile customer demand response capabilities and receiving
16 the same payment received by standard service offer ("SSO") customers
17 committing their demand response capabilities to CEI. The payment from CEI
18 will be recoverable through the portfolio compliance cost recovery mechanism.
19 ASHTA's customer-sited capabilities will help CEI satisfy its portfolio compliance
20 obligations and, in exchange for ASHTA's commitment, ASHTA will receive an
21 exemption from the portfolio compliance cost recovery mechanisms. Mr. Murray
22 will discuss this in more detail in his testimony.

1 **Q11. Based on the reasonable arrangement proposed by ASHTA, how will**
2 **ASHTA achieve its targeted delivered cost of electricity?**

3 A11. The reasonable arrangement described in my testimony reflects comments
4 submitted by the Commission's Staff and CEI and is different than the "all-in
5 price" structure proposed in the application. As things presently stand, the
6 reasonable arrangement would alter the SSO billing determinant for transmission
7 service provided by CEI and give ASHTA a better ability to time its electricity load
8 and usage so as to not contribute to the single coincident peak. The reasonable
9 arrangement would provide ASHTA with a fixed and known benefit for its
10 demand response capabilities in exchange for ASHTA committing such
11 capabilities to CEI for the term of the reasonable arrangement. The reasonable
12 arrangement would also exempt ASHTA from the portfolio compliance cost
13 recovery mechanisms for the reasons already discussed. Beyond these aspects
14 of the proposed reasonable arrangement, ASHTA's ability to achieve its targeted
15 delivered cost of electricity objective will depend upon ASHTA's efforts to
16 competitively source generation supply plus the market-based portion of
17 transmission service and ASHTA's success in operating its manufacturing
18 facilities so as to avoid the capacity resource and transmission peaks that have
19 billing significance in the PJM market structure.

20 **Q12. You mentioned that the reasonable arrangement would permit ASHTA to**
21 **commit its waste energy recovery capability to CEI. Please describe this**
22 **capability.**

1 A12. Energy from waste heat is available from different processes in the chlor-alkali
2 industry. [begin confidential]

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6 [end confidential] For a [begin confidential]

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9 . [end confidential] The most common use for this waste heat is in steam boilers
10 where steam is produced and then, in turn, used to evaporate water from the
11 dilute caustic (e.g. 28% potassium hydroxide) to produce a higher concentrated
12 material which is more transportable.

13 [begin confidential]
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1 Based on this initial engineering study, we foresee an initial capital investment of
2 [begin confidential]
3 [end confidential] The start-up and commissioning period after completion of
4 construction should be very short as the existing process will be able to be
5 operated parallel to ongoing construction. Besides an extensive retraining effort
6 of the [begin confidential] [end confidential] to
7 prepare them to make this transition, we anticipate we will need to increase
8 manning by [begin confidential] [end
9 confidential] to support proposed downstream processes.

10 We anticipate further growth in the chlorine market centered around a
11 resurgence of the chemical industry in the U.S. with the discovery of plentiful
12 natural gas. Our plans will allow for [begin confidential]

13
14 [end confidential]

15 **Q14. [begin confidential]**

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[end confidential]

Q15. Describe ASHTA’s natural gas usage and how it may be affected by the transformation project at the Ashtabula site.

A15. Historically, ASHTA has been a very small natural gas user. Thanks to the mercury cell process being exothermic at high operating rates and the fact that the liquid potassium hydroxide product is being produced at a saleable concentration, there has not been a big steam evaporation or process heating requirement. [begin confidential]

[end confidential] We at ASHTA have historically used this by-product hydrogen as fuel for our steam boilers, offsetting any natural gas demand.

Going forward with conversion of this thermal energy demand will change significantly. [begin confidential]

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[end confidential]

Q16. Has ASHTA been working with other state and local agencies to explore the transformation at the current site in Ashtabula?

A16. [begin confidential]

[end confidential]

Q17. Please describe the state, regional or local support that ASHTA has received for the proposed transformation of its manufacturing process in Ashtabula.

A17. [begin confidential]

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[end confidential]

Q18. If the Commission approves the reasonable arrangement that is described in your testimony, will ASHTA go forward with the transformation project at the Ashtabula site?

A18. The Commission's approval will complete an important part of the overall package that we are working to assemble so that we can go forward with the transformation at the Ashtabula site. As indicated above, the cost of electricity makes up [begin confidential] [end confidential] of our total variable production cost and the electricity part of the overall package is a critical part. [begin confidential]

1 [end confidential] We must be
2 successful on all of these package elements to renew the Ashtabula
3 manufacturing facility, make it eligible for potential expansion, retain the current
4 jobs, add jobs, and position it to be successful in the marketplace.

5 **Q19. Will the transformation and capital investment at the current Ashtabula**
6 **location increase employment?**

7 A19. We estimate that the transformation will result in [begin confidential]
8 . [end confidential] The primary
9 permanent job benefit of the transformation at the Ashtabula site will come from
10 [begin confidential] . [end confidential]
11 However, we anticipate that the transformation will [begin confidential]
12 [end confidential] by the commercial operation phase.

13 **Q20. If the Commission approves the reasonable arrangement you have**
14 **described in your testimony and ASHTA proceeds with the transformation**
15 **of the Ashtabula facility, will ASHTA provide the Commission's Staff with**
16 **annual reports on the status of the transformation project and its**
17 **performance during the term of the reasonable arrangement?**

18 A20. Yes, as ASHTA has done prior to the filing of the application and since, ASHTA
19 will provide such reports to the Commission's Staff. It is also my understanding
20 that the Commission will have continuing jurisdiction over the reasonable
21 arrangement. Future reporting and interaction with the Commission's Staff will

- 1 provide important opportunities to identify any modifications to the reasonable
- 2 arrangement that may be necessary to address future expansion opportunities.

3 **Q21. Does that conclude your testimony?**

4 A21. Yes, it does.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing *Direct Testimony of Richard L. Jackson* was served upon the following parties of record this 20th day of August 2012, via electronic transmission, hand-delivery, or ordinary U.S. mail, postage prepaid.



Scott E. Elisar

James Burk
FirstEnergy Service Company
76 S. Main Street
Akron, OH 44308

**On Behalf of The Cleveland Electric
Illuminating Company**

William Wright
Thomas W. McNamee
Attorney General's Section
Public Utilities Commission of Ohio
180 East Broad Street, 9th Floor
Columbus, OH 43215

**On Behalf of the Staff of the Public
Utilities Commission of Ohio**