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**BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of )  
Republic Steel for Approval of a Reasonable )  
Arrangement for Republic Steel's Lorain )  
Ohio Facility )

Case No. 13-1913-EL-AEC

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**DIRECT TESTIMONY OF KEVIN C. HIGGINS**

**On Behalf of Republic Steel**

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**February 6, 2014**

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1                                   **DIRECT TESTIMONY OF KEVIN C. HIGGINS**

2

3    **Introduction**

4    **Q.     Please state your name and business address.**

5    A.           Kevin C. Higgins, 215 South State Street, Suite 200, Salt Lake City, Utah,  
6               84111.

7    **Q.     By whom are you employed and in what capacity?**

8    A.           I am a Principal in the firm of Energy Strategies, LLC. Energy Strategies  
9               is a private consulting firm specializing in economic and policy analysis  
10              applicable to energy production, transportation, and consumption.

11   **Q.     On whose behalf are you testifying in this proceeding?**

12   A.           My testimony is being sponsored by Republic Steel ("Republic").

13   **Q.     Please describe your professional experience and qualifications.**

14   A.           My academic background is in economics, and I have completed all  
15               coursework and field examinations toward a Ph.D. in Economics at the University  
16               of Utah. In addition, I have served on the adjunct faculties of both the University  
17               of Utah and Westminster College, where I taught undergraduate and graduate  
18               courses in economics from 1981 to 1995. I joined Energy Strategies in 1995,  
19               where I assist private and public sector clients in the areas of energy-related  
20               economic and policy analysis, including evaluation of electric and gas utility rate  
21               matters.

22               Prior to joining Energy Strategies, I held policy positions in state and local  
23               government. From 1983 to 1990, I was economist, then assistant director, for the

1 Utah Energy Office, where I helped develop and implement state energy policy.  
2 From 1991 to 1994, I was chief of staff to the chairman of the Salt Lake County  
3 Commission, where I was responsible for development and implementation of a  
4 broad spectrum of public policy at the local government level.

5 **Q. Have you ever testified before this Commission?**

6 A. Yes. In January of this year I filed testimony in Dayton Power & Light  
7 Company's ("DP&L") storm cost recovery proceeding, Case No. 12-3062-EL-  
8 RDR, et al. In 2013, I testified in DP&L's Electric Security Plan ("ESP")  
9 proceeding, Case No. 12-426-EL-SSO, et al. and in Duke Energy Ohio's  
10 ("Duke") capacity charge proceeding, Case No. 12-2400-EL-UNC, et al. In 2012,  
11 I testified in the AEP-Ohio ESP proceeding, Case No. 11-346-EL-SSO.

12 In 2011, I testified in the Duke Market Rate Offer ("MRO") proceeding,  
13 Case No. 10-2586-EL-SSO, and Duke's ESP proceeding, Case No. 11-3549-EL-  
14 SSO, and in 2010, I filed testimony in Duke's storm damage cost recovery  
15 proceeding, Case No. 09-1946-EL-RDR.

16 In 2009, I testified in the DP&L ESP proceeding, Case No. 08-1094-EL-  
17 SSO, in FirstEnergy's MRO proceeding, Case No. 09-906-EL-SSO, and in  
18 Duke's distribution rate case, Case No. 08-709-EL-AIR, et al.

19 In 2008, I testified in AEP-Ohio's ESP proceeding, Case No. 08-917-EL-  
20 SSO, et al; FirstEnergy's MRO proceeding, Case No. 08-936-EL-SSO;  
21 FirstEnergy's ESP proceeding, Case No. 08-935-EL-SSO; and the FirstEnergy  
22 distribution rate case proceeding, Case No. 07-551-EL-AIR, et al.

1 In 2005, I testified in AEP-Ohio's IGCC cost recovery proceeding, Case  
2 No. 05-376-EL-UNC, and in 2004, I testified in the FirstEnergy Rate Stabilization  
3 Plan proceeding, Case No. 03-2144-EL-ATA.

4 **Q. Have you testified before utility regulatory commissions in other states?**

5 A. Yes. I have testified in approximately 175 proceedings on the subjects of  
6 utility rates and regulatory policy before state utility regulators in Alaska,  
7 Arizona, Arkansas, Colorado, Georgia, Idaho, Illinois, Indiana, Kansas,  
8 Kentucky, Michigan, Minnesota, Missouri, Montana, Nevada, New Mexico, New  
9 York, North Carolina, Oklahoma, Oregon, Pennsylvania, South Carolina, Texas,  
10 Utah, Virginia, Washington, West Virginia, and Wyoming. I have also filed  
11 affidavits in proceedings at the Federal Energy Regulatory Commission

12 **Q. What is the purpose of your testimony in this proceeding?**

13 A. The purpose of my testimony is to describe the terms of the unique  
14 arrangement ("Unique Arrangement") between Republic and Ohio Edison  
15 Company ("Ohio Edison") and explain why it is reasonable and does not violate  
16 the provisions of Ohio Revised Code ("RC") § 4905.33 and RC § 4905.35. I will  
17 also address the delta revenue associated with this Unique Arrangement and Ohio  
18 Edison's recovery of that delta revenue. Finally, I will describe the economic  
19 development incentives embodied in this Unique Arrangement and the job  
20 creation and retention the Unique Arrangement is designed to foster.

21 **Q. Please provide a background of Republic's Unique Arrangement.**

22 A. Republic filed and is seeking approval and authorization of a Unique  
23 Arrangement in order to expand and operate its production facility in Lorain,

1 Ohio ("Lorain Facility") to meet customer demand and to expand and retain  
2 employment for Ohio workers. The expansion includes, but is not limited to, the  
3 installation and operation of an Electric Arc Furnace ("EAF") which requires  
4 substantial infrastructure upgrades at and around the Lorain Facility in order to  
5 meet the expanded facility's power and energy requirements to operate  
6 successfully. The Stipulation and Recommendation will provide Republic with a  
7 rate discount (hereinafter the "Rate Discount") to Republic's delivered cost of  
8 electricity for electricity delivered to the new meter installed for the EAF  
9 ("Incremental Load"). Republic's existing meter for all non-EAF electric load  
10 ("Existing Load") will not be modified or discounted by the Unique Arrangement.  
11 The implementation of this arrangement to enable Republic to make a significant  
12 investment and employment commitment will help to ensure Republic's  
13 continued successful operation in Northern Ohio and will allow for operational  
14 and performance improvements at the expanded Lorain Facility.

15  
16 **Reasonableness of the Unique Arrangement**

17 **Q. Please briefly describe the discount structure in the Unique Arrangement as**  
18 **originally filed in the application for approval of a unique arrangement in**  
19 **this proceeding.**

20 **A.** In its initial application, Republic sought a discount relative to the all-in  
21 price of Ohio Edison's Standard Service Offer ("SSO") service, including  
22 applicable transmission and distribution charges and related riders and credits (the  
23 "SSO Price") for the Incremental Load at Republic's Lorain Facility. The

1 proposed term of the Unique Arrangement pursuant to both the initial application  
2 and the Stipulation is six years. In its initial application, Republic proposed a  
3 discount relative to the SSO price in the first year of the Unique Arrangement of  
4 25% that would decline by 1.0 percentage point each year of the Unique  
5 Arrangement, resulting in a 20% discount in the final (sixth) year. Under the  
6 terms of the initial application, the delta revenue to be recovered by Ohio Edison  
7 would equal the value of the discount relative to the SSO Price. During each year  
8 of the Unique Arrangement, the maximum delta revenue to be collected by Ohio  
9 Edison was proposed to be \$10 million, and the maximum total delta revenue to  
10 be collected over the six-year term was proposed to be \$40 million.

11 **Q. Is the structure of the Unique Arrangement as proposed in the Stipulation**  
12 **and Recommendation different than the application filed with the**  
13 **Commission?**

14 A. The Stipulation is structured to produce essentially the same final prices to  
15 Republic as the initial proposal, i.e., a series of annual rate discounts relative to  
16 the SSO price, but the means to reach these final prices have been modified to  
17 achieve this result at a potentially lower level of delta revenue. Specifically, the  
18 Stipulation encourages Republic to shop for electric generation from a  
19 competitive retail electric service (“CRES”) provider to serve its Incremental  
20 Load during periods when CRES-provided power is less expensive than SSO  
21 generation. I will refer to the all-in price at which Republic secures CRES  
22 service, including applicable transmission and distribution charges and related  
23 riders and credits as the “CRES Price.” When Republic is a shopping customer,

1 the delta revenue necessary to achieve the targeted final price to Republic  
2 (“Target Price”) will be calculated by taking the difference between the CRES  
3 Price and the Target Price (multiplied by the kilowatt-hours of the Incremental  
4 Load), thereby achieving the same final price to Republic as envisioned in the  
5 initial application, while requiring a lower expected amount of delta revenue. In  
6 addition, if during a given period the CRES Price turns out to be lower than the  
7 Target Price, then Republic would simply pay the CRES Price and delta revenue  
8 for that period would be zero.

9 **Q. Why has the structure of the Unique Arrangement changed from the initial**  
10 **application?**

11 A. During the settlement process intervening parties expressed an interest in  
12 reducing the level of delta revenue recovered from other customers as a result of  
13 the Unique Arrangement. The use of the competitive market as described above  
14 is proposed as a compromise to address these concerns by allowing Republic to  
15 achieve essentially the same pricing as proposed in the initial application, but with  
16 a potentially lower level of delta revenue recovered from customers.

17 **Q. What is the term of the Unique Arrangement?**

18 A. The term of the Unique Arrangement is six years (the “Term”). I will  
19 refer to each twelve-month period following the start of the Unique Arrangement  
20 as a “Term Year.”

21 **Q. Please describe the discount structure in the Unique Arrangement as**  
22 **proposed in the Stipulation and Recommendation.**

1 A. The Rate Discount for the Incremental Load will be derived as follows: In  
2 the first year of the Unique Arrangement, the SSO Price for service will be  
3 reduced by 25% to arrive at the Target Price. The Target Price is expressed on an  
4 average cents per kWh basis each month. As in the initial application, the  
5 reduction to the SSO Price will decline at a rate of 1.0 percentage point per year  
6 over the remaining five years of the Unique Arrangement, so that in the sixth year  
7 the reduction from the SSO Price used to calculate the Target Price will be 20%.

8 Under the Unique Arrangement, Republic may elect to purchase  
9 generation service from a CRES provider for its Incremental Load. Irrespective  
10 of whether Republic is taking SSO generation service or purchasing generation  
11 service from a CRES provider, Republic will pay the Target Price for power,  
12 except during periods in which delta revenue caps have been reached (as  
13 discussed below) and except during periods when the CRES Price is less than the  
14 Target Price.

15 **Q. How is delta revenue calculated under the Unique Arrangement proposed in**  
16 **the Stipulation?**

17 As I noted above, for periods in which Republic purchases generation  
18 service from a CRES provider, the monthly delta revenue will be equal to the  
19 positive difference between the CRES Price and the Target Price multiplied by the  
20 monthly kilowatt-hour consumption of the Incremental Load, subject to the delta  
21 revenue caps discussed below. For periods in which Republic obtains SSO  
22 generation service for its Incremental Load, the monthly delta revenue will be  
23 *equal to the positive difference between the SSO Price and the Target Price*

1 multiplied by the monthly kilowatt-hour consumption of the Incremental Load,  
2 also subject to the delta revenue caps discussed below.

3 For periods in which Republic chooses to purchase generation service  
4 from a CRES provider and the CRES Price is less than the Target Price, Republic  
5 will simply pay the CRES Price and monthly delta revenue will be zero.

6 **Q. Please describe the caps on the amount of the delta revenue recovered from**  
7 **customers as provided in the Stipulation.**

8 A. During each Term Year of the Unique Arrangement, the maximum delta  
9 revenue is \$10 million. The maximum delta revenue collected over the six year  
10 Term is \$40 million. If Republic reaches the annual \$10 million cap, the Rate  
11 Discount will be suspended until the start of a new Term Year. If Republic  
12 reaches the overall \$40 million cap, the Rate Discount will be terminated, but  
13 Republic will retain the option to procure generation service from a CRES  
14 provider for its Incremental Load separate from Existing Load for the duration of  
15 the Term.

16 **Q. Does the proposed structure of the Unique Arrangement in the Stipulation**  
17 **and Recommendation accomplish the parties' goal of providing an**  
18 **opportunity to reduce delta revenue?**

19 A. Yes, the proposed structure of the Unique Arrangement provides an  
20 opportunity to reduce delta revenue recovered from customers in Ohio Edison's  
21 service territory. By permitting Republic to shop for electric generation from a  
22 CRES provider as a component to the Unique Arrangement, Republic's overall  
23 electricity cost savings will be generally equivalent to the rate discount in the

1 unique arrangement application originally filed with the Commission, but with the  
2 potential for significantly reduced delta revenue. Thus, the Stipulation represents  
3 a well-conceived compromise.

4 **Q. What incentive does Republic have to shop for the best price from a CRES**  
5 **provider?**

6 A. The lower the price that Republic can obtain in the market, the lower delta  
7 revenue will be. Since delta revenue is capped on a Term Year and overall Term  
8 basis, by obtaining a better price in the market, Republic reduces the likelihood  
9 that its Rate Discount will become subject to one of the caps.

10 **Q. What mechanism will Ohio Edison utilize to seek recovery of the costs**  
11 **associated with this Unique Arrangement?**

12 A. The costs of the Unique Arrangement would be recovered through Ohio  
13 Edison's Delta Revenue Recovery ("DRR") rider.

14 **Q. Is the arrangement between Republic and Ohio Edison just and reasonable?**

15 A. Yes, it is.

16 **Q. Why?**

17 A. The arrangement is designed to foster the creation and retention of 449  
18 manufacturing jobs in Lorain, Ohio. It is structured to ensure that economic  
19 conditions that encourage job growth and retention exist at Republic by  
20 maintaining reliable and predictable supply of electric generation, transmission,  
21 and distribution service at reasonable prices for use at the Lorain Facility.

1     **Q.     Please describe the public benefit of the Unique Arrangement and Republic's**  
2     **obligations to create and retain jobs at the Lorain Facility associated with the**  
3     **Unique Arrangement.**

4     A.           As described in the terms of the Unique Arrangement, Republic explored  
5     opportunities to move its entire operation in Lorain, Ohio to Mexico. It is my  
6     understanding that, but for the potential for electricity cost savings provided in  
7     this Unique Arrangement, Republic likely would have expanded its production in  
8     Mexico rather than in Ohio. Instead, Republic has invested approximately \$100  
9     million to construct the EAF at its Lorain Facility and will create at least 449 new  
10    full time or full-time-equivalent manufacturing and supporting jobs, and retain  
11    approximately 100 industrial jobs. The new and retained jobs will result in the  
12    creation of additional significant secondary jobs and economic activity in the City  
13    of Lorain and State of Ohio, which in turn, will increase state, local and school tax  
14    revenues. All of these benefits are consistent with Ohio's state policy related to  
15    electric service by facilitating Ohio's effectiveness and competitiveness in the  
16    global economy found in RC § 4928.02(N).

17   **Q.     Are there provisions in the Stipulation and Recommendation that incentivize**  
18   **Republic to maintain the new jobs at the Lorain Facility during the entire**  
19   **term of the Unique Arrangement?**

20   A.           Yes. Republic must submit annual reports to the Commission Staff, which  
21   will state the status of employment levels at the Lorain Facility. The Commission  
22   is authorized to reduce the Rate Discount proportionately by the percentage level  
23   of any employment shortfall if the annual report establishes that the employment

1 level fell below the job commitment. Moreover, the Commission is authorized to  
2 require Republic to return a portion of the Rate Discount in proportion to the  
3 amount of an employment shortfall in the immediately preceding year based on  
4 the employment levels submitted in an annual report.

5  
6 **The Commission's Criteria for Evaluating Stipulations**

7 **Q. What criteria does the Commission use to decide whether to approve a**  
8 **stipulation and recommendation?**

9 A. The Commission generally applies the following three regulatory  
10 principles or criteria: First, is the Stipulation a product of serious bargaining  
11 among capable, knowledgeable parties? Second, taken as a package, does the  
12 Stipulation benefit ratepayers and the public interest? Third, does the Stipulation  
13 violate any important regulatory principles?

14 **Q. With respect to the first criterion, was the Stipulation the product of serious**  
15 **bargaining among capable, knowledgeable parties?**

16 A. Yes, the settlement negotiations involved a diverse group of experienced  
17 parties. Several settlement meetings were held at the Commission's offices. All  
18 of the parties were represented by skilled people with expertise in regulatory  
19 matters before this Commission who possessed extensive information related to  
20 the Unique Arrangement. The negotiations were at arm's length, and all parties  
21 had the benefit of legal counsel. In sum, the parties devoted many hours to the  
22 negotiations that occurred over several weeks.

23 **Q. Did all parties have an opportunity to participate in the negotiations?**

1 A. Yes, as described above, there was a series of settlement conferences in  
2 which all parties were invited to participate, and it is my understanding that all  
3 chose to do so.

4 **Q. Turning to the second criterion, does the Stipulation, as a package, benefit**  
5 **customers and the public interest?**

6 A. Yes, as I explained above, by approving the Stipulation, Republic will  
7 receive electric service at rates that permit Republic to invest over \$100 million  
8 on the new EAF in Lorain, Ohio. Republic will create 449 jobs and maintain 100  
9 existing jobs in Lorain as well. The new jobs in the region will have highly  
10 beneficial direct and indirect impacts on the economy, including increasing the  
11 tax base.

12 **Q. With respect to the third criterion, does the Stipulation violate any important**  
13 **regulatory principle?**

14 A. No, the Stipulation does not violate any important regulatory principle.  
15 On the contrary, the Stipulation implements and fulfills the State policies through  
16 the Unique Arrangement. Moreover, the Unique Arrangement does not violate  
17 the provisions of RC §4905.33, in that it takes effect upon approval by the  
18 Commission, consistent with RC §4905.31 and the laws governing unique  
19 arrangements. Further, the Unique Arrangement is consistent with RC §4905.35  
20 in that it does not create an unreasonable advantage for Republic, nor does it  
21 subject any other person or entity to any undue prejudice or disadvantage. It  
22 represents a balanced approach that will ultimately create and retain jobs, which  
23 will benefit all ratepayers in the region and Ohio as a whole.

1

2 **Conclusion**

3 **Q. Please summarize your testimony.**

4 A. The Unique Arrangement is a reasonable and cost-effective means to  
5 promote Ohio's energy policy. Customers and residents in Northern Ohio will  
6 benefit from the retention of jobs currently at the Lorain Facility, the creation of  
7 the four hundred forty-nine new jobs, and the indirect economic benefits of this  
8 Unique Arrangement. The State of Ohio will benefit from the job retention, job  
9 growth, and the tax base this Unique Arrangement provides. Republic  
10 respectfully requests the Commission to approve the Stipulation and  
11 Recommendation and find that the Rate Discount in the Unique Arrangement is  
12 recoverable through Ohio Edison's DRR rider.

13 **Q. Does this conclude your direct testimony?**

14 A. Yes, it does.