

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Joint Application)	
of Ohio Power Company and)	Case No. 14-2304-EL-EEC
Kraton Polymers U.S. LLC for Approval)	
of a Special Arrangement Agreement)	

**ADDITIONAL REPLY COMMENTS BY KRATON POLYMERS U.S. LLC,
IN RESPONSE TO THE COMMISSION'S
MARCH 16, 2015 ENTRY**

I. ADDITIONAL BACKGROUN REGARDING THE APPLICANT.

Kraton Polymers, LLC (the “Company”) is a leading global producer of engineered polymers. These polymers are used in a wide variety of applications including consumer and personal care items, adhesives and coatings, electronics, medical supplies, automotive components, and paving and roofing materials. The Company operates research and development facilities in the United States and Europe; manufacturing facilities in the United States, Germany, France, Japan and Brazil; and technical service laboratories in Japan, China and Brazil. It supplies products to customers in over 60 countries, worldwide, and generated more than \$1.23 Billion in 2014 revenue. Its United States subsidiary, Kraton Polymers, USA, LLC (“Kraton”) is headquartered in Houston, Texas. Kraton’s operations include a manufacturing facility in Belpre (Washington County) Ohio that presently employs more than 400 individuals.

II. BRIEF SUMMARY OF THE APPLICATION.

Acting for itself and on behalf of Kraton, the Ohio Power Company filed the joint application that is the subject of this proceeding in late December, 2014. That application explains that Kraton has agreed to commit its “prospective planned CHP System

electricity generation” to AEP’s “energy efficiency and peak demand reduction requirements.” In exchange for Kraton’s commitment, AEP in turn committed to make annual incentive payments to Kraton for five years, beginning in 2015, at \$0.005 per kWh. Such incentive payments are estimated to equal \$158,120 per year, with the five-year incentive payment total estimated at \$790,600.

Numerous factors, including the initial project costs and estimated O&M costs influenced Kraton’s decision to construct its CHP facilities. The availability of incentive payments under Ohio law was among the material factors in Kraton’s decision to develop the CHP project in the first place, as was this Commission’s prior approval of AEP’s comprehensive energy efficiency and peak-demand reduction program portfolio plan.

III. COMMENTS AND OBJECTIONS BY THIRD PARTIES TO THE AGREEMENT BETWEEN AEP AND KRATON.

Entities that have intervened in this proceeding are all generally supportive of the application. Kraton sincerely appreciates that support. Each of those entities, however, has also used the docketing of this application as an opportunity to raise various public policy concerns each believes this Commission should find important, and to press solutions to those concerns they believe to be sound policy. For example, the Industrial Energy Users of Ohio (IEU-Ohio) suggests that AEP is modifying its portfolio plan to create an opt-out opportunity for Kraton, and indicates it would like to secure a similar opt-out option for others represented by IEU-Ohio. It also opposes granting AEP relief from the shared savings cap. The Ohio Manufacturing Association Energy Group (“OMAEG”), joined by the Ohio Environmental Council, Natural Resources Defense Council, Environmental Law & Policy Center, and Environmental Defense Fund (the “Environmental Advocate Groups”), all complain that the incentive payment AEP is

providing to Kraton is too low to incent similar developments by other mercantile customers (even though, Kraton presumes, any increase in incentive payments paid by Ohio Power will justify a larger recovery from customers of Ohio Power, through its energy efficiency recovery rider). Moreover, both the Environmental Advocacy Groups and OMAEG want this Commission to direct AEP to at least attempt to convince PJM Interconnection, LLC (“PJM”) to amend the type of (or size) energy efficiency technologies eligible for inclusion for PJM’s demand reduction/response programs in order to obtain the inclusion of Kraton’s CHP project. The Environmental Advocacy Groups opine that there is at least “no reason not to pursue this issue with PJM.”

IV. KRATON’S RESPONSE TO THESE COMMENTS.

Ohio Power Company filed initial comments in this matter on behalf of itself and Kraton. Kraton joins Ohio Power Company in the Reply Comments it is filing contemporaneously with these comments. Kraton submits these Additional Reply Comments simply to emphasize its view, as a mercantile customer.

Kraton has no position at this point in time regarding any of the policy concerns expressed by the various interveners. Those positions are obviously important to each of them, and may – or may not – some day be important to Kraton, as well. But this proceeding is the wrong proceeding in which to engage in debate over those issues. Kraton understands this Commission has opened a docket (Case No. 12-2156-EL-ORD) in which those issues can all be raised, and where they all may be adjudicated by this Commission.

This docket is about Kraton’s project and more specifically, its agreement with Ohio Power Company. Kraton’s decision to enter into an agreement with Ohio Power

Company and to accept the incentive payments offered by AEP should be recognized to be one business decision made at one point in time by one company based upon one set of unique economic facts applicable to that one company. Accordingly, that agreement should not be deemed to set any sort of precedent, nor should the level of incentives in this case be understood to be a “last word” upon the merits of any other deal between any other company and Ohio Power Company, or indeed, any other electric service provider.

Further, this Commission should recognize that Kraton’s agreement with Ohio Power Company is based upon existing regulations and upon Ohio Power Company’s existing approved plan. Changes to Ohio Power Company’s approved plan will almost certainly modify certain risk factors to entities such as Kraton. This Commission may ultimately decide that some such modifications are sound public policy, and thus should be adopted. It may decide others are not. Even so, this Commission should recognize that any changes it may impose will likely also result in changes to the economic risks experienced by entities such as Kraton, who are prepared to proceed based upon risks known to exist and thus evaluated at *this* point in time, before this Commission has had the opportunity to weigh fully the positives and negatives of the issues raised by third party intervenors.

For example, Kraton acknowledges the debate between Ohio Power Company and IEU-Ohio on the one hand, and OMAEG and the Environmental Advocacy Groups on the other, regarding whether the Commission should require AEP to develop and pursue a plan to qualify CHP projects as a capacity resource so that the energy efficiency attributes may be bid into the PJM capacity market. Without regard to which side ultimately may have the better public policy argument, this Commission should recognize

that Kraton's decision to commit its CHP resource to Ohio Power for purposes of the Ohio Economic Efficiency Portfolio did not consider the risks / rewards of a commitment of the resource into PJM, because currently such a commitment isn't even an option under PJM rules. In the event such a commitment might someday become required, both Ohio Power and Kraton should be afforded an opportunity to re-assess the economics of their present commitment. The failure to provide such an opportunity threatens to "trap" parties into arrangements rendered uneconomic solely due to regulatory change, and would represent an enormous dis-incentive to parties who might otherwise be willing to commit resources to Ohio's EE program *today*.

In short, Kraton urges this Commission to respect the economic decisions made by individual actors, and approve the agreement between Ohio Power Company and Kraton as negotiated. Should this Commission ultimately direct changes to the portfolio plans of Ohio electric service providers, it should do so in a docket specifically intended to consider the public policy implications. In addition, should this Commission direct changes to portfolio plans that will materially alter the economic risks of any agreement previously struck by parties, it should provide the parties with an opportunity to amend their arrangements to account for those changed risks.

V. CONCLUSION

The Joint Applicants have presented this Commission with a customized contract with agreed incentives that comply with AEP's authorized plan. All intervening parties note their general support for the application. The application should therefore be approved by the Commission. The merits of goals pursued by third parties are without doubt important, and this Commission may ultimately decide that some of those goals, at

least, should be reflected in Commission rules or Opinions and Orders, in order to better promote Ohio public policy. But those determinations should not occur in this docket. Entities doing business now, and prepared to provide a real benefit to Ohio now, are best incented if they are able to measure the risks and rewards of a course of action taken now, and if they are confident that the agreements they negotiate in conformity with the existing plans of electric suppliers will be approved.

Respectfully submitted,

/s/ Michael D. Dortch

Michael D. Dortch (0043897)

KRAVITZ, BROWN & DORTCH, LLC

65 East State Street Suite 200

Columbus, OH 43215

614.464.2000

mdortch@kravitzllc.com (will accept emailed service)

Attorneys for *Kraton Polymers U.S. LLC*

CERTIFICATION OF SERVICE

I hereby certify that a copy of the Comments of Kraton Polymers U.S. LLC was served on the persons stated below by electronic mail, this 27th day of April 2015.

//s/ Michael D. Dortch
Michael D. Dortch

EMAIL SERVICE LIST

mjsatterwhite@aep.com
stnourse@aep.com
fdarr@mwncmh.com
mpritchard@mwncmh.com
Bojko@carpenterlipps.com
Hussey@carpenterlipps.com
William.Wright@puc.state.oh.us

Administrative Law Judge
Richard.bulgrin@puc.state.oh.us

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Summary: Reply Comments of Kraton Polymers USA, LLC electronically filed by Mr. Michael D. Dortch on behalf of Kraton Polymers USA, LLC