

OCC EXHIBIT NO. _____

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In The Matter Of The Application for)
Establishment of a Reasonable Arrangement) Case No. 09-516-EL-AEC
between Eramet Marietta, Inc. and Columbus)
Southern Power Company)

**DIRECT TESTIMONY
OF
MICHAEL P. HAUGH**

**On Behalf of the
The Office of the Ohio Consumers' Counsel**
*10 West Broad Street, Suite 1800
Columbus, Ohio 43215-3485*

SEPTEMBER 25, 2015

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ATTACHMENTS

Attachment MPH-1

List of Testimony Filed

1 **I. OVERVIEW**

2

3 ***Q1. PLEASE STATE YOUR NAME, TITLE, AND BUSINESS ADDRESS.***

4 ***A1.*** My name is Michael P. Haugh. I am employed as the Assistant Director of
5 Analytical Services for the Office of the Ohio Consumers' Counsel ("OCC" or
6 "agency"). My business address is 10 West Broad Street, Suite 1800, Columbus,
7 Ohio 43215.

8

9 ***Q2. PLEASE BRIEFLY SUMMARIZE YOUR EDUCATION AND***
10 ***PROFESSIONAL EXPERIENCE.***

11 ***A2.*** I have a Bachelor of Science in Business Administration from the Ohio State
12 University with a major in Finance; I have also attended the Institute of Public
13 Utilities Advanced Regulatory Studies at Michigan State University. I have over
14 20 years working in the energy industry with experience in wholesale and retail
15 energy trading, risk management, natural gas purchasing and scheduling and
16 regulatory affairs. I started with Enron Energy Services in 1995 as an Energy
17 Trader and then moved on to American Electric Power Energy Services in 1998
18 where I worked in Risk Management and Wholesale Energy Trading. In January
19 2004 I went to work for MidAmerican Energy Services as a Senior Product
20 Manager. In October of 2004 I began work as a Senior Regulatory Analyst with
21 the OCC. I left the OCC in September 2007 and joined Integrys Energy Services
22 as a Regulatory Affairs Analyst. I joined Just Energy in 2009 and held the

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1 position of Manager of Regulatory Affairs before becoming Manager of Market
2 Relations in 2011. I was re-hired at the OCC in June 2014 in my current position.

3

4 ***Q3. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN UTILITY CASES***
5 ***BEFORE REGULATORY COMMISSIONS?***

6 ***A3.*** Yes, I have testified before the Public Utilities Commission of Ohio (“PUCO” or
7 “Commission”) and the Michigan Public Service Commission. The complete list
8 of cases in which I have testified is attached as Attachment MPH-1.

9

10 **II. PURPOSE OF TESTIMONY**

11

12 ***Q4. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS***
13 ***PROCEEDING?***

14 ***A4.*** The purpose of my testimony is to make recommendations, to the PUCO, for
15 resolving this case in a manner that includes reasonable protections for residential
16 consumers. These protections will help provide balance for consumers
17 considering that they (consumers) are asked to pay subsidies for economic
18 development under the Joint Stipulation and Recommendation filed on September
19 21, 2015 (“2015 Stipulation” or “settlement”). Residential consumers are among
20 the customers who pay the subsidies for rate discounts for economic development.
21 My recommendations include proposals for modifications to the settlement
22 between the PUCO Staff and Eramet Marietta, Inc (“Eramet” or “applicant”).
23 These recommendations would move the 2015 Stipulation closer to meeting the

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1 PUCO's three-pronged test for evaluating the reasonableness of a proposed
2 settlement. I do appreciate that Eramet discussed its application with the Ohio
3 Consumers' Counsel. And I appreciate the improvements that the PUCO staff
4 and the applicant made in the settlement, from the original application, to reduce
5 the amounts consumers would pay for the proposed discounts.

6

7 ***Q5. PLEASE PROVIDE AN OVERVIEW OF THE PROCEEDING.***

8 ***A5.*** On June 19, 2009, Eramet, filed an application to establish a reasonable
9 arrangement with AEP-Ohio for its manufacturing facility in Marietta, Ohio. In
10 its application Eramet requested a discounted price over a 10-year term to allow a
11 capital investment of approximately \$40,000,000 in the facility. A Stipulation
12 was filed on August 5, 2009 ("2009 Stipulation") which was signed only by
13 PUCO Staff and Eramet. The 2009 Stipulation allowed for a discounted rate of
14 generation, transmission and distribution (with the discount paid to AEP by other
15 customers to make AEP whole) through 2018. In return for this discount Eramet
16 agreed to: (1) make a capital investment in its manufacturing facility of at least
17 \$40,000,000 before December 31, 2014; (2) maintain a minimum average
18 employment level of 200 employees during the term of the reasonable
19 arrangement; and (3) file an annual report with the PUCO documenting its
20 compliance with these commitments. On October 15, 2009, the PUCO approved
21 the 2009 Stipulation. On January 22, 2015 Eramet filed an Application to amend
22 the reasonable arrangement. And then on September 21, 2015, the 2015
23 Stipulation was filed by Eramet.

1 ***Q6. PLEASE PROVIDE AN OVERVIEW OF THE 2015 STIPULATION.***

2 ***A6.*** In the 2015 Stipulation, Eramet has recommended to be permitted to purchase
3 energy, capacity, market-based services and competitive retail electric service
4 (“CRES”) from a certified CRES provider (“marketer”). The declining discount
5 rates in the 2009 Stipulation shall remain (and will continue to be paid by other
6 customers), but the discounts may include Eramet obtaining CRES services. In
7 addition, Eramet commits to maintain an average of 175 full-time equivalent
8 direct employees at the facility over the term of the arrangement. Eramet
9 commits to submitting an annual report to the PUCO regarding the performance
10 and the impact of the modified arrangement. Eramet requests the ability to further
11 modify this arrangement as may be warranted.

12
13 **III. THE 2015 STIPULATION**

14
15 ***Q7. WHAT ARE THE PUCO’S STANDARDS OF REVIEW FOR EVALUATING***
16 ***PROPOSED SETTLEMENTS?***

17 ***A7.*** The PUCO uses these criteria for evaluating the reasonableness of a proposed
18 settlement:

- 19 1. Is the settlement a product of serious bargaining among
20 capable, knowledgeable parties, where there is diversity of
21 interests among the stipulating parties?
- 22 2. Does the settlement package violate any important
23 regulatory principle or practice?

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1 3. Does the settlement, as a package, benefit customers and
2 the public interest?¹
3

4 ***Q8. DOES THE SETTLEMENT MEET THE FIRST PRONG OF THE***
5 ***STANDARD?***

6 ***A8.*** The settlement lacks diversity of interests, meaning customers who would pay the
7 discount subsidy are not signatories.
8

9 ***Q9. DOES THE SETTLEMENT PACKAGE VIOLATE ANY IMPORTANT***
10 ***REGULATORY PRINCIPLE OR PRACTICE?***

11 ***A9.*** Yes. Regulatory principles and practices should be served by including a cap on
12 what consumers would be asked to pay in subsidies. The 2015 Stipulation does
13 not provide for a cap on the total delta revenue which AEP can collect from
14 customers. Also, the applicant should confirm (publicly) that all its past
15 commitments for economic development (that were the rationale for consumers to
16 pay the discount subsidies under the 2009 Stipulation) have been fulfilled.
17 Further, in future annual filings the applicant should confirm (publicly) that
18 commitments for economic development etc. are being fulfilled. And, for
19 transparency, the amounts that consumers pay for economic development should
20 be public information. These points are not made as unique to the applicant, but
21 are appropriate generally for these types of cases.

¹ *Consumers' Counsel v. Pub. Util. Comm.*, 64 Ohio St 3d 123, 125(1992), citing *Akron v. Pub. Util. Comm.*, 55 Ohio St. 2d 155, 157 (1978).

1 ***Q10. WHY DO YOU RECOMMEND A CAP ON THE DELTA REVENUE***
2 ***(SUBSIDY) THAT AEP COULD CHARGE TO CONSUMERS?***

3 ***A10.*** A cap is an important protection for consumers who pay the subsidy. In other
4 cases where companies have sought reasonable arrangements from the PUCO, a
5 cap on the total amount collected from customers has been instituted. As an
6 example, the PUCO set caps on a reasonable arrangement with a company.² In
7 another instance the PUCO stated: “The Commission agrees with Staff’s position
8 that, generally, unique arrangements must contain a floor, a minimum amount that
9 the party should be required to pay, and a ceiling, a maximum amount of delta
10 revenue which the [customers] should be expected to pay.”³ Even though the
11 2015 Stipulation allows for the applicant to shop with a CRES provider (which
12 can—but is not guaranteed to—reduce the subsidy), energy prices could still rise
13 and that would lead to higher delta revenues (subsidy) collected from customers.
14 A cap would protect customers in such a scenario.

² *In the Matter of the Joint Application of Timken Company and the Ohio Power Company for Approval of a Unique Arrangement for the Timken Company’s Canton, Ohio, Facilities*, Case No. 10-3066-EL-AEC, Direct Testimony of Timken witness Mirgalia, page 5, lines 9-16. The cap allows for a maximum monthly discount of 25% below the tariff rates and an aggregate discount cap which is confidential.

³ *In the Matter of the Application of Ormet Primary Aluminum Corporation for Approval of a Unique Arrangement with Ohio Power Company and Columbus Southern Power Company*, Case No. 09-119-EL-AEC, Opinion and Order July 15, 2009 at page 9.

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1 ***Q11. DO YOU HAVE A PROPOSED CAP IN MIND FOR THIS***

2 ***ARRANGEMENT?***

3 ***A11.*** I would suggest an annual cap of \$3.6 million and an aggregate cap of \$10
4 million. This would protect customers and maintain PUCO control of subsidies to
5 be paid by customers.

6

7 ***Q12. DO YOU HAVE ANY OTHER RECOMMENDATIONS FOR CAPPING***

8 ***AMOUNTS BILLED TO CUSTOMERS THROUGH ECONOMIC***

9 ***DEVELOPMENT RIDERS?***

10 ***A12.*** Yes. As OCC has previously advocated, there should be a limit on the total
11 amount of money paid by all utility customers for all economic development
12 riders resulting from requests to the PUCO for these discounts. There needs to be
13 this protection for what consumers could at most be made to pay to utilities for all
14 applicable reasonable arrangements. Accordingly, I recommend that the subsidies
15 that consumers are asked to pay to electric utilities for all economic development
16 riders not exceed, in total, a certain low percentage of consumers' electric bills.

17

18 ***Q13. WHY SHOULD THE PUCO REQUIRE THE APPLICANT TO CONFIRM IT***

19 ***COMPLETED ALL REQUIREMENTS OF THE 2009 STIPULATION?***

20 ***A13.*** Customers and the PUCO should know whether economic development
21 commitments that are a basis for consumers being made to fund the discounts and
22 that are intended for benefiting Ohioans with economic development are fulfilled.

1 ***Q14. DOES THE SETTLEMENT, AS A PACKAGE, BENEFIT CUSTOMERS AND***
2 ***THE PUBLIC INTEREST?***

3 ***A14.*** To move the settlement closer to meeting this standard, the PUCO should make
4 some improvements in the settlement for the way the applicant may choose a
5 marketer and for the filing of an annual report that should be done publicly.

6
7 ***Q15. WHAT IS YOUR RECOMMENDATION FOR THE PROCESS OF***
8 ***CHOOSING A CRES PROVIDER?***

9 ***A15.*** From my experience in the retail electric and gas markets, I believe the best way
10 to obtain a low price for commodity service is through an auction or a request for
11 proposal (“RFP”) process. Lowering the CRES rate paid by the applicant will, in
12 turn, lower the delta revenue (subsidy) paid by customers. In my opinion,
13 conducting an RFP to choose a CRES provider could help in reducing the price
14 paid by the applicant (and thus paid by consumers to AEP for the delta revenue).
15 It is common practice for large industrial companies to issue an RFP to procure
16 energy supply. In fact, there are a number of third-party companies who provide
17 RFP services to large industrial and commercial customers. The process could be
18 as simple as sending out the RFP to CRES providers who are listed as serving
19 large industrial customers or it could involve an auction where CRES providers
20 would actively bid on serving the applicant. In this situation I believe simply
21 issuing an RFP to Ohio-certified CRES providers would help in obtaining a lower
22 CRES supply rate (and in reducing the subsidy that consumers would pay to AEP
23 for the applicants’ discount subsidy).

1 ***Q16. WHY SHOULD THE ANNUAL REPORT BE MADE AVAILABLE TO***
2 ***INTERESTED PARTIES?***

3 ***A16.*** It serves transparency and thus is in the public interest to disclose to customers
4 what they are paying for economic development subsidies. And it's in the public
5 interest to know that companies receiving funding for reasonable arrangements
6 are fulfilling their commitments to Ohioans for economic development. For
7 example, the Ohio Attorney General provides a reporting of the compliance of
8 economic development awards given by the Ohio Development Services
9 Agency.⁴ This report publicly discloses the amount of grant awards, loan
10 amounts, commitments, performance and actions taken if the commitments are
11 not reached.

12
13 **IV. CONCLUSION**

14
15 ***Q17. DOES THIS CONCLUDE YOUR TESTIMONY?***

16 ***A17.*** Yes, however I reserve the right to incorporate new information that may
17 subsequently become available, such as after testimony by the stipulating parties
18 is available.

⁴ 2014 Report to the General Assembly: Award Recipient Compliance with State Awards for Economic Development, December 9, 2014 <http://www.ohioattorneygeneral.gov/Files/Publications/Publications-for-Business/2014-Economic-Development-Accountability-Report>.

CERTIFICATE OF SERVICE

I hereby certify that a true copy of the foregoing *Direct Testimony of Michael P. Haugh, on Behalf of the Office of the Ohio Consumers' Counsel* was served via electronic transmission this 25th day of September, 2015 upon the parties below.

/s/ Maureen R. Grady
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Ohio

Monongahela Power Company, Case No. 04-1047-EL-ATA

American Electric Power Company, Case No. 05-376-EL-UNC

Dayton Power and Light Company, Case No. 05-276-EL-AIR

Dominion East Ohio Company, Case No. 05-474-EL-ATA

Dominion East Ohio Company, Case No. 05-219-GA-GCR

Columbia Gas of Ohio, Case No. 05-221-GA-GCR

Duke Energy Ohio, Case No. 03-93-EL-ATA

American Electric Power, Case No. 07-63-EL-UNC

Michigan

Michigan Consolidated Gas Company, Case No. U-17131

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