

THE PUBLIC UTILITIES COMMISSION OF OHIO

COMMENTS OF ORMET PRIMARY ALUMINUM CORPORATION

## I. BACKGROUND

Ormet, a subsidiary of Ormet Corporation, is particularly sensitive to electric rates. Historically, power costs (including transmission costs) have accounted for approximately one-third of the cost of aluminum production. The aluminum business is very competitive, very sensitive to overall economic conditions and normally survives on small margins. Ormet

competes with smelters throughout the world, and most – if not all – U.S. smelters facing high delivered power costs have been shut down.<sup>1</sup>

Ormet owns an aluminum reduction facility in Hannibal, Ohio. The reduction facility is physically located in the AEP zone of PJM, and takes generation, transmission and distribution service from Columbus Southern Power Company (“Columbus Southern”) and Ohio Power Company (“Ohio Power”) (collectively “AEP Ohio”) under an electric service agreement entered into in accordance with the Stipulation reached in Commission Case No. 05-1057 on November 9, 2006. When fully operating, the reduction facility uses approximately 520 MW of power, 24 hours per day, 365 days per year.

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The structure of S.B. 221 raises several issues:

1. **Filing Requirements Not Specified.** Under Section 4928.143(C)(1), the Commission shall approve an application for an ESP within 150 days (on an initial application) or 275 days (on subsequent ESP applications) if it finds the ESP “is more favorable in the aggregate as compared to the expected results that would otherwise apply [to an MRO] under Sec. 4928.142 of the Revised Code.” Thus, even if an EDU files only an ESP (and does not file an MRO), it appears that the EDU must nevertheless provide evidence based upon which the Commission can determine whether the ESP is more favorable than a market-based approach under a hypothetical MRO. Obviously, this finding must be based upon forecasts of market-based generation prices because no actual bids would have been solicited by an EDU electing to file an ESP. Moreover, in order to estimate “results that would otherwise

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<sup>1</sup> The Wall Street Journal for July 09, 2008, notes (at page B2) that even Alcoa, which owns and controls relatively low-cost power supplies for its smelters in the United States, is at a disadvantage in world aluminum markets because its smelters are not located

... in lower-cost energy areas such as Russia, the Middle East and Canada. Alcoa’s operations, when compared with its competitors, aren’t low-cost operations.

But the Company has made a move to open new operations in Iceland to take advantage of less-expensive hydropower.

Aluminum makers, including Rio Tinto Canada and UC Rusal, are all scrambling to build new aluminum smelters in countries with lower energy costs.

- apply” to the hypothetical MRO, the Commission (and presumably the EDU) will be required to make assumptions about the percentages of EDU-owned generation and market-based generation that the EDU would elect to “blend” during the initial five-year period and beyond. The filing requirements for an ESP make no mention of the need to provide information upon which the Commission can determine the “results that would otherwise apply” to the hypothetical MRO. Ormet suggests that the filing requirements set forth in Appendix B be supplemented in order to enable the Commission to fulfill its statutory obligations under Section 4928.143(C)(1).
2. **Need for Allocation/Simulation Assumptions.** In the MRO, the EDU is permitted to adjust the most recent standard service offer price upwards or downwards to reflect changes in the costs of fuel, purchased power, renewable power and energy efficiency requirements. See Section 4928.142(D). That adjusted standard offer price is blended with the winning bid prices of market-based generation. Assume, for example, that the blended price is to be derived from a blend of 40% market-based generation costs from third party bidders and 60% from the costs of EDU-owned resources. This means that 40% of the EDU-owned generation and purchased power that was used in establishing the most recent standard service offer price will no longer be used in serving the EDU customer load. If the EDU-owned generation is sufficient to serve more than 60% of its load, some of that EDU-owned generation will be freed up for sales into competitive markets. As is true today, the EDU should be required to allocate the least cost generation to its retail customers in determining the blended rate and assign the higher cost generation to serve its competitive market sales. Ormet suggests that the Commission clarify that, to the extent that the revenue requirements of EDU-owned resources are reflected in the blended rates, the least cost generation be assigned to retail sales.
  3. **Revenue Recovery.** The section on Revenue Recovery (4901:1-38-08) calls for recovery through a rider, which separates it from the basic filing. But the utility is pulled in opposite directions in being required to defend the need for the special rate and in seeking Commission authorization for the utility to recover the delta revenue. Objectively, the utility would support or at least be neutral about special arrangement so long as it is assured of recovery of the delta revenue. Ormet recommends that if a special arrangement is requested by the utility, recovery of delta revenue should be provided for any special arrangement that the Commission approves without a separate proceeding. Furthermore, in those cases in which the delta revenue cannot be determined in advance, the EDU should have the opportunity either to recover the delta revenue in arrears or to “true up” for any over- or under-recovery that may result from an estimate.
  4. **Clarification Needed.** At sections 4901:1-38-03(A)(2)(a) and (B)(2)(a) of the proposed rules governing Special Arrangements, customers are required to demonstrate through submission of verifiable information that “Eligible projects must be for non-retail purposes.” Ormet requests clarification of the Commission’s intent in requiring that projects be for “non-retail purposes.” Ormet understands that the

rules are proposed to apply only to retail customers and that eligible projects must be for “**non-resale** purposes.”

## RESPONSE TO COMMISSION QUESTIONS

At page 3 of the Commission’s Entry, the Commission posed several inquiries:

- (7) To assist the Commission in its evaluation of Staff’s proposed rules, the Commission requests that interested parties file with their comments responses to the following questions.
  - (a) Should the rules on the competitive bidding process (Proposed O.A.C. §4901:1-35-03, Appendix A, Part (B)) provide for consideration of alternative products and approaches to conducting competitive bidding?

### ORMET RESPONSE:

Yes. For example, a portfolio approach is contemplated in subpart (B)(13) of Appendix A to Chapter 4901:1-35, Electric Utility Standard Service Offer.

- (b) Should the Commission require consideration of the value of lost load in ensuring that customers’ and the electric utility’s expectations are aligned as required by Section 4928.143(B)(2)(h), Revised Code?

### ORMET RESPONSE:

No comment.

- (c) Should the Commission by rule invite an electric utility to identify in an ESP specific long-term objectives (e.g., objectives related to the implementation of state policies or meeting standards contained in S.B. 221), together with milestones and metrics for measuring progress? If so, are there specific topics which should be addressed?

### ORMET RESPONSE:

Yes. In particular, it would be helpful to customers in conducting their long-term planning if their EDU would describe how it intended to meet the State’s long term objectives of providing an adequate, reliable, cost-effective and environmentally-friendly supply, including estimates of the costs that such plans might impose on its customers. Ormet notes that Subparts (C) and (H) of the

preamble of Appendix B to Chapter 4901:1-35 invite each EDU to provide portions of the information Ormet seeks.

- (d) With respect to an energy efficiency schedule based on a reduction in electricity consumption (Proposed O.A.C. §4901:1-38-04 (B)), how should the rules define the baseline level of customer energy consumption from which a reduction would be measured?

ORMET RESPONSE:

No comment.

- (e) Should special arrangements provided for in Chapter 4901:1-38 be applicable only to customers of an electric utility providing service pursuant to an electric security plan?

ORMET RESPONSE:

No. Special arrangements should be available irrespective of whether an EDU operates under an electric security plan or a market-rate offer. This is the case for several reasons:

1. A customer's need for a reasonably-priced power supply that enables it to compete would exist without regard to whether the EDU operates under an electric security plan or a market-rate offer.

The State's economic development objectives should be met just as well if the electric utility is providing service pursuant to an electric security plan as those objectives would be met if the electric utility were providing service pursuant to a market-rate offer.

2. Other ratepayers should logically be as accepting of a Special Arrangement under an MRO as they would be under an ESP. Rates under any MRO authorized by the Commission should be lower than the rates would have been under an ESP because total MRO revenues must be less than ESP revenues. That is the implication of Section 4928.143 (C)(1) which provides in part:

Subject to division (D) of this section [which exempts a grandfathered rate plan from the earnings test], the commission by order shall approve or modify and approve an application filed under division (A) of this section if it finds that the electric security plan so approved, including its pricing and all other terms and conditions, including any deferrals and any future recovery of deferrals, is more

favorable in the aggregate as compared to the expected results that would otherwise apply under section 4928.142 [the MRO provision] of the Revised Code.

- (f) Should there be a cap on the level of incentives for special arrangements authorized pursuant to Chapter 4901:1-38?

**ORMET RESPONSE:**

There is no need for any predetermined cap on the level of incentives for special arrangements. The Commission should gauge the extent of the needed delta revenues, on a case-by-case basis, as customers and electric distribution utilities apply for special arrangements. Obviously, the Commission should not approve so many special arrangements that other ratepayers will be required to bear burdens disproportionate to the benefits that Ohio will garner by retaining jobs and promoting economic development, efficiency and conservation.

This case-by-case approach is envisioned under **4901:1-38-07**      **Level of incentives.**

- (A) The level of the incentives associated with any schedule or unique arrangement established pursuant to this chapter shall be determined as part of the commission's review and approval of the applications filed pursuant to this chapter.

This case-by-case approach is also envisioned by **4901:1-38-08**      **Revenue recovery.**

- (A) Each electric utility may apply for a rider for the recovery of certain costs associated with its delta revenue in accordance with the following:

Moreover, the Commission can revisit the reasonableness of delta revenues in the periodic updates called for by Section 4901:1-38-08 (A) and alter the incentives as necessary. Section 4901:1-38-08 (A) provides in part:

- (2) The rider may be updated, by application to the commission, semi-annually by the electric utility. All data submitted in support of the rider update is subject to commission review and audit.
- (3) The approval of the request for revenue recovery, including the level of such recovery, is at the commission's discretion and the application is subject to change, alteration or modification by the commission.

Although it is implicit under Commission practice, it is important with respect to subpart (3) above that the Commission provide a grace period before altering "delta revenues" in recognition of the possibility that the customer may have made longer term commitments based on the rider. For example, Ormet often makes commitments to sell aluminum forward at specific prices

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based on assumptions regarding its power prices and would be at substantial risk of losses if the “delta revenues” and, therefore, the rider were to be modified or terminated precipitously.

Respectfully submitted

\S\ Tommy Temple

Title

Ormet

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Summary: Comments on behalf of Ormet Primary Aluminum Company electronically filed by Mr. Whitfield A Russell on behalf of Ormet Primary Aluminum Company and Mr. Tommy Temple