

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.)

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PREPARED TESTIMONY
of
Robert B. Fortney

Rates and Tariffs Division

The Public Utilities Commission of Ohio

Staff Exhibit ____

July 31, 2009

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1 **PREPARED TESTIMONY OF ROBERT B. FORTNEY**

2 1. Q. Please state your name and business address.

3 A. My name is Robert B. Fortney. My business address is 180 E.
4 Broad Street, Columbus, Ohio 43215.

5 2. Q. By whom are you employed and in what capacity?

6 A. I am employed by the Public Utilities Commission of Ohio (PUCO)
7 as a Public Utilities Administrator 3 in the Rates and Tariffs
8 Division of the Utilities Department.

9 3. Q. Please outline your educational background and work experience.

10 A. I received a Bachelor of Science Degree in Business Administration
11 from Ball State University, Muncie, Indiana, in 1971. I received a
12 Master of Business Administration Degree from the University of
13 Dayton, Dayton, Ohio, in 1979. I have been with the Commission
14 staff for 23 years, involved in all aspects of electric utility rates,
15 rules and regulations.

16 4. Q. What is the purpose of your testimony in this proceeding?

17 A. On June 19, 2009, Eramet Marietta, Inc. (Eramet) filed an
18 application for approval of a reasonable arrangement with Columbus
19 Southern Power Company (CSP). Eramet is requesting that the
20 Commission approve an arrangement that will ensure that its
21 facilities will remain competitive in the marketplace and that will
22 permit Eramet to upgrade its manufacturing facility through capital

1 investments. In order to accomplish those goals, the basic intent of
2 the application is to establish a fixed price per kWh for all base
3 levels of consumption. Per the application, the fixed price
4 (otherwise known as an "all-in" rate) would be \$.04224/kWh
5 (exclusive of the self-assessed kWh tax) for 2009 through 2011. The
6 base price would escalate by 3.5% per year for the years 2012
7 through 2014. If Eramet has substantially complied with its
8 projected \$40 million in capital investments during those first six
9 years, the fixed rate concept, with annual escalations of 3.5% would
10 continue for the years 2015 through 2018. The purpose of my
11 testimony is to provide the Commission with staff's perspective on
12 the application.

13 5. Q. What is that perspective?

14 A. On June 15, 2009, the Commission issued its Opinion and Order in
15 Case No. 09-119-EL-AEC. In that case, the Commission approved,
16 with modifications, the application by Ormet Primary Aluminum
17 Company (Ormet) for a unique arrangement with the Ohio Power
18 Company and Columbus Southern Power Company (AEP-Ohio).
19 Staff recommends that the modifications made to that application
20 form the guidelines for which future applications for reasonable
21 arrangements are reviewed.

1 6. Q. What are those modifications?

2 A. Most importantly, the Commission found that, generally, unique (As
3 an aside, I am not making a distinction between a “unique”
4 arrangement, an “economic development” arrangement, a “business
5 retention” arrangement or an “energy efficiency” arrangement.

6 While those different “types” of arrangements are discussed in the
7 reasonable arrangement rules (4901:1-38), I believe that the policy
8 implications of the modifications made to the Ormet application can
9 be adapted to fit all of the types of arrangements.) arrangements
10 must contain a floor (a minimum amount that the party seeking the
11 arrangement should be required to pay) and a ceiling (a maximum
12 amount of “delta revenue” which ratepayers should be expected to
13 pay).

14 An “all-in” rate poses some problems from staff’s perspective. It
15 exempts customers from paying the variances in cost-specific riders
16 that the Commission has or may approve. For instance, an all-in rate
17 exempts customers who receive the benefits of a reasonable
18 arrangement (which is funded by payment of delta revenues from
19 other ratepayers) from having to pay for the delta revenues of other
20 customers who also have reasonable arrangements. Further, in the
21 case of CSP, no one has any idea what future rates, beyond the
22 period of the Electric Security Plan, will be. Thus, there is no way

1 of knowing what percent discount a future fixed rate will be off of
2 the otherwise applicable tariff rate. It makes much more sense to
3 give a known percent discount off of a total rate or some portion of
4 the total rate. From staff's perspective, the percent discount that
5 ratepayers should be expected to pay should be a maximum of 25%.
6 If the Commission were to approve a fixed, or all-in, rate, it should
7 also consider implementing a demand cap provision to ensure
8 stability in CSP's demand obligations and a minimum billing
9 provision to lessen the volatility of the delta revenues.

10 7. Q. What is delta revenue?

11 A. "Delta revenue" is defined in 4901:1-38-01 as the deviation resulting
12 from the difference in rate levels between the otherwise applicable
13 rate schedule and the result of any reasonable arrangement approved
14 by the Commission.

15 8. Q. Does the application address the issue of delta revenue recovery?

16 A. Yes. In Provision 6 of the application Eramet urges the Commission
17 to address the subject and treatment of "delta revenue" in
18 compliance with Section 4905.31, Revised Code, and Rule 4901:1-
19 38-08, Ohio Administrative Code.

20 9. Q. What does this mean?

21 A. That may be subject to different interpretations. I am not a lawyer,
22 so I have no legal opinion on how those interpretations will play out.

1 While not stated in this application, Columbus Southern Power has
2 indicated in its ESP proceedings that it intends to seek recovery of
3 100% of any delta revenues to be recovered from all Ohio Power
4 and Columbus Southern Power customers on a percentage of each
5 customer's distribution charges.

6 10. Q. What other modifications made by the Commission in the Ormet
7 case do you view as guidelines?

8 A. The Commission found that the discounts given to Ormet should
9 decline over the term of the arrangement such that they will be
10 phased out by the end of the arrangement. The Commission found
11 that the level of discounts should be adjusted to reflect any
12 reductions in the labor force. I believe the Commission should
13 adhere to those policies in considering the approval of this
14 application.

15 The Commission also found that under the terms of the Ormet
16 arrangement, AEP-Ohio will be the exclusive supplier to Ormet.
17 Therefore, since there is no risk that Ormet will shop for competitive
18 generation and then return to AEP-Ohio's POLR (Provider of Last
19 resort) service, any POLR charges paid by Ormet must be used to
20 reduce the AEP-Ohio's ratepayers' delta revenue obligations created
21 by the arrangement. If the Commission were to find that under the

1 terms of the Eramet arrangement, CSP will be the exclusive supplier
2 to Eramet, it is reasonable that the same POLR policy should apply.

3 11. Q. Are there any other modifications the Commission should consider?

4 A. Eramet has indicated that it intends on making capital investments to
5 its facilities: \$20 million during the initial three years, an additional
6 \$20 million in the next three years, perhaps an additional \$100
7 million in the final four years. The Commission should have the
8 ability to monitor the progress of those promised expenditures, and,
9 to adjust the level of the future discounts based upon the progress
10 made on an annual basis.

11 12. Q. Have you quantified the level of delta revenues that would result
12 from this arrangement?

13 A. That is hard to do because the level of the otherwise applicable tariff
14 is unknown. However, to give the Commission some idea as to the
15 level of delta revenues that would result from this contract, the
16 annual delta revenue resulting from the difference in the expected
17 GS-4 tariff rate for 2011 and the \$.04224 fixed rate for Eramet
18 would be in the neighborhood of \$6.5 million annually. That would
19 be a “cap” and would be reduced in the subsequent years.

1 13. Q. Does this conclude your testimony?
2 A. Yes, it does. However, I reserve the right to submit supplemental
3 testimony, as described herein, as new information becomes
4 available or in response to positions taken by other parties.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and accurate copy of the **Prepared Testimony of Robert B. Fortney** was served this 31st day of July, 2009 by electronic mail or, where no e-mail address is available, by regular U.S. mail, postage prepaid, or by hand delivery, upon the persons listed below.

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