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BEFORE THE
PUBLIC UTILITIES COMMISSION OF OHIO

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In the Matter of the Application for)
Establishment of a Reasonable Arrangement) Case 09-516-EL-AEC
Between Eramet Marietta, Inc. and Columbus)
Southern Power Company)

COLUMBUS SOUTHERN POWER COMPANY'S
MEMORANDUM CONTRA APPLICATION FOR
REHEARING FILED BY
ERAMET MARIETTA, INC.

On November 16, 2009, Eramet Marietta, Inc. (Eramet) filed an application for rehearing. Eramet questions the meaning of the Commission's order when it clearly required that Eramet must commit its demand response capabilities to CSP for compliance with SB 221's peak demand reduction benchmarks. Pursuant to §4901-1-35 (B), Ohio Admin. Code, CSP files this memorandum contra Eramet's application for rehearing.

In both its application and the Stipulation, Eramet refers to its commitment to work with CSP to determine how and to what extent Eramet's customer-sited capabilities might be committed to CSP for assistance in meeting CSP's statutory energy efficiency requirements. In testimony, Eramet witness Flygar testified that Eramet is contemplating several customer-sited energy efficiency projects that it is willing to consider committing to CSP to help CSP to meet its portfolio requirements, including projects involving recycling of silicomanganese fines during the casting process; installing high-efficiency lighting; installing plant substation capacitor upgrades that will improve power factor; and converting the administration building from steam to high efficiency heating.

(Eramet Ex. 3A at 12).

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In his pre-filed direct testimony, CSP witness Baker (at 13) addressed Eramet's willingness to consider committing projects it is contemplating undertaking:

CSP is interested in all customers' customer-sited capabilities in the context of energy efficiency and peak demand response achievements required of CSP under SB 221. However, the details of benefits and measurements in Eramet's application are vague and indefinite. Eramet witness Flygar testifies that Eramet is merely "willing to consider committing" customer-sited capabilities to CSP for integration into its compliance portfolio for energy efficiency and that Eramet is willing to "negotiate in good faith" to address these matters. It is CSP's view that, if the Commission is to consider the energy efficiency and demand response capabilities that are directly associated with the proposed facility investments as benefits, those capabilities need to be presently committed to CSP's compliance portfolio as part of this proceeding. Otherwise, Eramet would be obtaining a discount from CSP (paid for by other ratepayers) that helps fund facility investments while also fully preserving the ability to extract an additional price from CSP (and ultimately other ratepayers) for the capabilities of that same facility investment. If there is no present commitment of Eramet's resources as part of this case, then the Commission should assign no value in this case to the energy efficiency and demand response capabilities associated with the facility investments.

Further, CSP argued in its post-hearing brief, as noted by the Commission in its Order (at 9-10), as follows:

CSP argues that a customer already receiving a discount from CSP, as Eramet will be if the reasonable arrangement is approved, should make its demand response capabilities available for commitment to CSP in order to help reduce the peak demand reduction compliance costs borne by all customers. As an extension of this argument, CSP argues that Eramet should commit its demand response capabilities to CSP in exchange for receiving its service discount subsidy from other customers. (CSP Ex. 1 at 11-12; CSP Post-hearing Brief at 29).

In response to these arguments, the Commission's ultimate finding in this discussion (at 10) was that "Eramet must make its demand response capabilities available to CSP in order to reduce peak demand reduction compliance costs." More specifically, the Commission Order (at 10) requires that "Eramet and CSP shall work in good faith to

determine how and to what extent Eramet's customer-sited capabilities, as referenced by Eramet witness Flygar, can be committed to CSP."

The service agreement, signed by Eramet and CSP in compliance with the Opinion and Order, provides (in paragraph 5) as follows: "After the PJM 2009-2010 planning year, and in accordance with the Commission's rules and Ohio law, the Customer shall make its demand response capabilities available to the Company in order to reduce the Company's peak demand reduction compliance costs." This provision implements the Order in a straightforward fashion and should not be changed.

Nevertheless, after getting approval of its discounted rates for electric service, Eramet attempts to back peddle on this issue. Specifically, Eramet states on rehearing (at 2-3) that "[w]hile Eramet is willing to participate in a CSP DRP that is capable of providing it with opportunities equivalent to those resulting from participation in PJM's DRPs ... it seems unlikely to have resolution of these issues [developing DRPs for CSP that are equivalent to PJM's] by the time Eramet must make a commitment to PJM's DRPs." There are several interesting implications that flow from this statement of Eramet's position.

First and foremost, Eramet is presuming that it has the ability to make a commitment to PJM relative to the 2010-2011 planning year for participation in DRPs. Eramet is apparently hoping that the Commission will forget that the Order in this case clearly indicates (at 10) that after the 2009-2010 planning year Eramet "must make its demand response capabilities available to CSP in order to reduce peak demand reduction compliance costs." Under the terms of the Order in this case (as well as the Order in

CSP's ESP case as discussed below), Eramet is simply not permitted to register and participate in the PJM DRPs for the 2010-2011 planning year.

Second, in support of its position, Eramet states (at 2) that the opportunity to commit its capabilities to CSP to count toward CSP's peak demand reduction requirements "may be created either by Eramet's continued participation in PJM's DRP or through an equivalent program offered by CSP." This is a false premise. CSP does not believe that Eramet's direct participation in PJM's DRPs would constitute a commitment of Eramet's resources toward CSP's compliance under the Commission's Green Rules and would not comply with Eramet's obligation under the Order in this case to make its demand response capabilities available to CSP in order to reduce peak demand reduction compliance costs.

Third, even if Eramet were permitted to participate in the PJM DRPs for the 2010-2011 planning year while at the same time enjoying the benefits of its Reasonable Arrangement, the benefits of participation in the PJM program would not flow to Eramet until after June 2010. Thus, in making the comparison between PJM's DRPs and the development of similar programs by CSP, Eramet is using the wrong time frame for comparison – saying that the issues need to be resolved by the beginning of the registration period (January 2010) not the time when the program benefits would flow (June 2010). CSP is working toward proposing a set of demand response programs for the Commission's consideration and approval that are designed to compete with the PJM DRPs. There would be no time lost as long as that process is complete by June 2010.

In sum, what Eramet attempts to portray as a clarification on rehearing is really a fundamental change to the Commission's decision. The existing Order requires

committal of Eramet's demand response resources after completion of the 2009-2010 planning year so as to reduce CSP's compliance costs (which will be passed through the CSP's customers under the EE/PDR Rider mechanism approved in its ESP case), in exchange for granting Eramet a special discount for electric service (which discount will also be paid for by CSP's other customers through the EDR mechanism approved in the ESP case).

This tradeoff is consistent with the Commission's rehearing decision in CSP's ESP case finding that customers who receive special discounts should not be permitted to continue participating in the PJM DRPs. As Mr Baker testified (at 10-11) in this case:

CSP disagrees with Eramet's position and submits that it conflicts with what I believe is the apparent premise of the Commission's clarification. In prohibiting participation in the PJM demand response programs by customers that already have obtained discounts, the Commission avoids a result that I believe would be "double dipping" for such customers to obtain additional financial benefits by managing their load through participation in the PJM demand response programs. There are two primary reasons why this is true.

First, AEP Ohio and, by extension, all of its customers incurs a cost associated with a retail customer's participation in the PJM demand response programs. Specifically, AEP Ohio must continue to count the load of PJM demand response participants as firm under its Fixed Resource Requirements option and the cost of doing so will be reflected in AEP Ohio's retail rates - a cost that could be avoided if the customer had instead participated in an AEP Ohio demand response program. Necessarily, the dollars that do come into Ohio from Load Serving Entities (LSEs) on the East Coast only flow in that direction because those LSEs avoid capacity in the eastern part of PJM - which would need to be added by AEP Ohio since it must treat a retail PJM demand response customer as firm load. Again, a customer already receiving a discount financed by other ratepayers should not be permitted to impose such additional costs on AEP Ohio's other customers.

Second, as a related matter, the PJM demand response programs provide direct competition for AEP Ohio's efforts to obtain a commitment from mercantile customers to dedicate their limited demand response

capabilities and resources for the purpose of compliance with SB 221's peak demand reduction mandates.

In other words, the more demand response resources are dedicated to the PJM programs, the less demand response resources will be available to the State of Ohio generally and for AEP Ohio specifically. That is why CSP maintains that a customer already receiving a discount should, in exchange for receiving its service discount subsidy from other customers, make its demand response capabilities available for commitment to AEP Ohio in order to help reduce the peak demand reduction compliance costs borne by all customers.

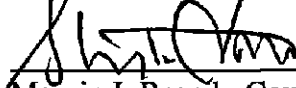
Though CSP disagrees with other terms of the approved Eramet service agreement, CSP submits that it was appropriate and fair for the Commission to order Eramet to commit its demand response capabilities in exchange for granting the requested rate discount that is to be paid for by the remainder of CSP's other customers.

CSP stands ready to implement the Commission's Green Rules and has already made multiple filings toward compliance with the peak demand reduction benchmarks, including a mercantile agreement that will be followed up with dozens of other agreements that are in the queue to be filed. These matters will be pursued and resolved with all deliberate speed, especially now that the Green Rules have been finalized.

CONCLUSION

For the foregoing reasons, Eramet's application for rehearing should be denied.

Respectfully submitted,



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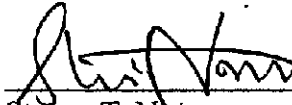
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CERTIFICATE OF SERVICE

I hereby certify that a copy of Columbus Southern Power Company's Memorandum Contra Application for Rehearing Filed By Eramet Marietta, Inc. was served by U.S. Mail upon the individuals listed below this 25th day of November 2009.



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