

PUBLIC VERSION

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Commission Review of)
The Capacity Charges of Ohio Power)
Company and Columbus Southern Power)
Company.)

Case No. 10-2929-EL-UNC

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**DIRECT TESTIMONY OF LIMA REFINING COMPANY
ON BEHALF OF THE OHIO MANUFACTURERS' ASSOCIATION**

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**On behalf of The Ohio Manufacturers'
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1 **I. INTRODUCTION**

2 **Q1. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 **A1.** My name is Richard J. Walters, Sr. My business address is 1150 South Metcalf
4 Street, Lima, Ohio 45804-1145

5 **Q2. BY WHOM ARE YOU EMPLOYED AND IN WHAT POSITION?**

6 **A2.** I am employed by Lima Refining Company ("Lima") as the Plant Controller.

7 **Q3. ON WHOSE BEHALF ARE YOU OFFERING TESTIMONY?**

8 **A3.** I am testifying on behalf of the Ohio Manufacturers' Association ("OMA") as a
9 result of our significant interest in issues that affect the price and availability of
10 electricity for our facilities in Ohio.

11 **Q4. PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE.**

12 **A4.** I have been employed by Lima since May 2000 and had previously spent over
13 29 years in the manufacturing industry.

14 **Q5. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PUBLIC UTILITIES**
15 **COMMISSION OF OHIO ("COMMISSION")?**

16 **A5.** No.

17 **Q6. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

18 **A6.** The purpose of my testimony is to discuss the impact that a \$355 per megawatt-
19 day ("MW-day") price for capacity will have on my business. Specifically, my
20 testimony describes Lima's impact on the State and local economy, the
21 estimated impact on Lima's electricity rate, how Lima will likely have to respond,

1 and Lima's ability to proactively mitigate the impact of the \$355/MW-day capacity
2 cost.

3 **Q7. DO YOU HOLD YOURSELF OUT AS OR CONSIDER YOURSELF AN**
4 **EXPERT ON ELECTRICITY PRICING?**

5 **A7.** No. I am simply describing the anticipated impact on my company of AEP-
6 Ohio's request for the Commission to modify the state capacity compensation
7 mechanism to a cost-based formula rate that results in capacity costs to
8 competitive suppliers at a rate of \$355/MW-day.

9 **II. CUSTOMER INFORMATION**

10 **Q8. PLEASE DESCRIBE YOUR COMPANY'S OHIO LOCATIONS AND THE**
11 **NUMBER OF EMPLOYEES AT THOSE OHIO FACILITIES?**

12 **A8.** Lima has manufacturing plants in Lima and Dublin, Ohio with a combined total of
13 457 employees.

14 **Q9. WHAT BENEFITS DOES YOUR COMPANY PROVIDE TO OHIO?**

15 **A9.** Lima's annual payroll exceeds \$[REDACTED] million annually. Lima's hourly employees
16 average \$[REDACTED]/year with benefits and Lima has 218 salaried employees. Lima
17 typically contributes \$[REDACTED]/year in state and local property taxes each year.
18 Lima also purchases significant goods and services from local and Ohio
19 businesses. Lima has been a good and long time corporate citizen that strives to
20 provide high quality services and products and high quality manufacturing
21 employment in Ohio.

22 **Q10. PLEASE DESCRIBE THE IMPACT OF AEP-OHIO'S PROPOSAL ON LIMA.**

A10. Electricity is a significant cost for Lima. We have shopped the generation portion of our electric bills in recent years to take advantage of the attractive market rates in order to continue to be competitive in our market sector. Under AEP-Ohio's proposal, our competitive supplier will be compelled to pay a \$355/MW-day capacity charge, which is significantly above market rates. This above-market rate will be passed on to us. For Lima, the difference between the market prices for capacity and AEP-Ohio's proposed \$355/MW-day is approximately \$51,700,000 over the next three years.

This will have a significant impact on Lima. Specifically, this dramatic increase in our electricity costs will make us less competitive in the market place as we attempt to recover these costs in our product sales. We will have less funds for capital investments, worker training, hiring of new employees, and retention of existing employees.

Q11. WHAT STEPS HAS LIMA TAKEN TO TRY TO MANAGE THE RISKS OF ELECTRICITY PRICING VOLATILITY?

A11. Lima has engaged in negotiations with several competitive suppliers and shopped the generation portion of our electric service for some time now in an effort to proactively manage the risks. However, as I understand AEP-Ohio's proposal, all competitive suppliers would have to pay AEP-Ohio the \$355/MW-day price. Consequently, our competitive rates will be impacted as well even though we were shopping well before September 2011. In other words, there are no practical ways to mitigate the increase as AEP-Ohio's proposal inhibits customers' ability to shop for alternative suppliers and save money. It also holds

1 customers captive to higher rates and essentially serves as a tax on shopping. If
2 the Commission approves AEP-Ohio's proposal and modifies the capacity cost
3 recovery mechanism, there will be a very high regulatory hurdle to doing
4 business in Ohio.

5 **III. CONCLUSION**

6 **Q12. WHAT CONCLUSIONS HAVE YOU REACHED ABOUT AEP-OHIO'S**
7 **PROPOSAL AND THE IMPACT ON YOUR COMPANY?**

8 **A12.** As a long-standing customer of AEP-Ohio, Lima needs reliable service. We also
9 understand that AEP-Ohio needs to be fairly compensated for the service it
10 provides. However, when AEP-Ohio's proposal is viewed in the larger context,
11 we feel like AEP-Ohio charged market rates for capacity when the market rates
12 were above AEP-Ohio's costs but, now, when the market prices are at historic
13 lows, AEP-Ohio is using "costs" to justify rate increases. Worse yet, AEP-Ohio
14 will revert to market prices in 2015, when, as I understand it, market prices are
15 predicted to increase again. In other words, we think AEP-Ohio's proposal lacks
16 balance and fairness. This is particularly true when the proposal undermines our
17 ability to manage the risk of rate impacts by shopping with a competitive supplier.

18 For these reasons, on behalf of Lima and OMA, I respectfully request that the
19 Commission reject AEP-Ohio's proposal and revert back to using the PJM
20 market rate as the state capacity cost compensation mechanism.

21 **Q14. DOES THIS CONCLUDE YOUR TESTIMONY?**

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- 1 **A14.** Yes, it does. I'd like to thank the Commission for the opportunity to provide
2 information about the impact on Lima for the Commission's consideration.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing was served by mailing a true and correct copy via electronic mail, and by first-class postage prepaid mail, to all parties on this 5th day of April, 2012.



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