

**PUBLIC – REDACTED VERSION**

**BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of )  
Columbus Southern Power Company and )  
Ohio Power Company for Authority to ) Case No. 11-346-EL-SSO  
Establish a Standard Service Offer ) Case No. 11-348-EL-SSO  
Pursuant to §4928.143, Ohio Rev. Code, )  
in the Form of an Electric Security Plan. )

In the Matter of the Application of )  
Columbus Southern Power Company and ) Case No. 11-349-EL-AAM  
Ohio Power Company for Approval of ) Case No. 11-350-EL-AAM  
Certain Accounting Authority. )

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**DIRECT TESTIMONY OF OSCO INDUSTRIES, INC.  
ON BEHALF OF THE OMA ENERGY GROUP**

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**On behalf of the OMA Energy Group**

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**I. INTRODUCTION**

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

A1. My name is John Burke. My business address is 11th and Chillicothe Streets, Portsmouth, Ohio 45662.

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

A2. I am employed by OSCO Industries, Inc. ("OSCO") as its President.

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

A3. I am testifying on behalf of the OMA Energy Group ("OMAE") as a result of our significant interest in issues that affect the price and availability of electricity for our facilities in Ohio.

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

A4. I have been employed by OSCO since October 1976. As OSCO's President, I am involved in many aspects of the Company's activities, including the procurement, utilization and conservation of energy.

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

A5. Yes. I testified in Case No. 10-2929-EL-UNC related to the impact of AEP-Ohio's capacity cost proposal on our company.

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

A6. The purpose of my testimony is to discuss the impact on our company of AEP-Ohio's proposals for pricing capacity and the Retail Stability Rider ("RSR"). Specifically, my testimony describes OSCO's impact on the State and local economy, the estimated impact of the capacity price proposal and the RSR

**PUBLIC – REDACTED VERSION**

would have on OSCO's electricity rate, how OSCO will likely have to respond, and OSCO's ability to proactively mitigate the impact of the capacity cost and RSR proposals.

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

A7. No. I am simply describing the anticipated impact on our company of AEP-Ohio's capacity proposals and the RSR.

**II. CUSTOMER INFORMATION**

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

A8. OSCO has manufacturing plants in Jackson, New Boston and Portsmouth, Ohio with a combined total of 360 employees.

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

A9. OSCO's annual payroll exceeds \$ [REDACTED] million annually. OSCO's hourly employees average \$ [REDACTED]/hour with benefits and OSCO has 108 salaried employees. OSCO typically contributes \$ [REDACTED]/year in state and local property taxes each year. OSCO also strives to purchase goods and services from local and Ohio businesses and does so in excess of \$ [REDACTED] million per year. While OSCO is certainly not the largest employer or energy user in Ohio, OSCO has been a good and long time corporate citizen that strives to provide high quality services and products and high quality manufacturing employment in Ohio.

**III. IMPACT OF AEP-OHIO'S ESP CAPACITY PRICE PROPOSAL AND RSR.**

**Q10. PLEASE DESCRIBE YOUR UNDERSTANDING OF AEP-OHIO'S CAPACITY PRICING PROPOSAL.**

A10. It is my understanding that for shopping customers, AEP-Ohio would charge competitive retail electric service ("CRES") providers one of three prices depending on the outcome of this case and AEP-Ohio's application for corporate separation. AEP-Ohio's first option is to charge CRES providers for all shopping customers \$355 per megawatt-day ("MW-day") for using AEP-Ohio's capacity. Alternatively, from 2012 through May 31, 2013, AEP-Ohio will charge CRES providers who supply the first 21% of shopping customers, by class, \$146 per MW-day and \$255 per MW-day for the remainder of shopping customers, without any scaling factors, through January 1, 2015. The percentage of customers who may get the lower, "first tier" capacity pricing increases to 31% on June 1, 2013 through May 31, 2014 and increase to 41% on June 1, 2014 through December 1, 2015. Then, if full corporate separation is achieved, AEP-Ohio will charge CRES providers the PJM reliability pricing model ("RPM") price for capacity for all shopping customers starting on January 1, 2015 at the earliest or June 1, 2015 at the latest.

**Q11. DO YOU KNOW WHAT THE PJM RPM PRICES FOR CAPACITY FOR THAT SAME PERIOD ARE?**

A11. I am generally aware that they are around \$17 per MW-day for June 1, 2012 through May 31, 2013, \$27 per MW-day for the following 12 months and \$126 per MW-day for the following twelve months. No one knows the price for June 1,

2015 and beyond as the PJM RPM auctions have not been conducted yet, but my understanding is that the prices are anticipated to increase.

**Q12. PLEASE DESCRIBE THE IMPACT OF AEP-OHIO'S CAPACITY PRICING PROPOSAL ON OSCO.**

A12. Electricity is a significant expense for OSCO. AEP-Ohio's substantial rate increases in recent years and our concerns about additional large increases in their then-future 2012-2015 ESP plan led OSCO to shop the generation portion of our electrical bill in the summer of 2010. On August 27, 2010 OSCO contracted with a CRES provider in an attempt to stabilize the cost of our electricity in order to continue to be competitive in our market sector.

Under AEP-Ohio's proposal, our competitive supplier will be compelled to pay either \$355-MW-day, \$255 per MW-day or \$145 per MW-day for a capacity charge. The difference between the PJM RPM price and the AEP-Ohio capacity charge will be passed on to us. For OSCO, we have determined that the difference between the PJM RPM price for capacity and AEP-Ohio's proposed capacity rates are as follows over the next three years:

Difference between RPM and \$355/MW-D	Difference between RPM and \$255/MW-D	Difference between RPM and \$146/MW-D
\$2,573,000	\$1,680,000	\$705,500

**Q13. PLEASE DESCRIBE YOUR UNDERSTANDING OF AEP-OHIO'S RSR.**

A13. My understanding of the RSP is a that it is designed to ensure AEP-Ohio receives enough revenue to earn a return on equity of 10.5% in spite of AEP-Ohio's claimed losses on capacity costs. In other words, since AEP-Ohio is

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collecting less than its claimed cost of capacity from CRES providers, AEP-Ohio will charge all customers, whether shopping or not, a per kilowatt-hour (“kWh”) charge, in order to make up for the loss. I also understand that there will be a final true-up of the RSR to make sure AEP-Ohio did not under- or over-collect the amount of revenue necessary to hit 10.5% return on equity.

**Q14. PLEASE DESCRIBE THE IMPACT OF AEP-OHIO’S RSR ON OSCO.**

A14. OSCO uses approximately [REDACTED] kWh on an annual basis. Thus, over a three year ESP, the RSR alone would cost OSCO nearly \$[REDACTED] whether OSCO is shopping or not.

**Q15. PLEASE DESCRIBE THE COMBINED IMPACT OF AEP-OHIO’S CAPACITY PRICING PROPOSAL AND THE RSR ON OSCO.**

A15. Combined, over the three year ESP, depending on the capacity price, the impact on OSCO’s operations will be approximately \$[REDACTED], \$x[REDACTED] or \$[REDACTED].

**Q16. HAS OSCO TAKEN ANY STEPS TO PROACTIVELY MANAGE ITS ELECTRIC PRICING?**

A16. Yes. Electricity is a significant expense for OSCO, and we have already shopped the generation portion of our electric bills in order to continue to be competitive in our market sector. However, as I understand AEP-Ohio’s proposal on capacity pricing and the RSR, even shopping customers, like OSCO, will be forced to pay these proposed add-ons in addition to the CRES provider’s Energy Charge. In other words, AEP-Ohio’s proposal attempts to thwart our efforts, taken back in 2010, to proactively manage our electricity costs. AEP-Ohio’s proposal holds customers captive to higher rates and essentially serves

as a punitive tax on customers who have already shopped. The mitigation of these continuing increases in electrical cost is no easy task.

**Q17. PLEASE DESCRIBE THE IMPACT ON OSCO OF AEP-OHIO'S CAPACITY COST PROPOSAL AND THE RSR.**

A17. At one of our plant locations, OSCO has endured a net operating loss during the last five years. Understandably, this makes OSCO extremely sensitive to the large annual increases in the cost of electricity and AEP-Ohio's current proposal that will substantially increase our electrical costs even more.

In recent years OSCO has been negatively impacted by global competition and the depression in the housing sector. These whammies, along with the "Great Recession of 2009" and the slow progress of the recovery, have made the pass-through of AEP's rate increases very difficult. We see AEP-Ohio's proposal on 2012-2015 rates in the same light. We will have less funds for the maintenance and growth of our business.

**III. CONCLUSION**

**Q18. WHAT CONCLUSIONS HAVE YOU REACHED ABOUT AEP-OHIO'S CAPACITY PRICING PROPOSALS?**

A18. As a long-standing customer of AEP-Ohio, OSCO needs reliable service. We also understand that AEP-Ohio needs to be fairly compensated for the service it provides. However, when AEP-Ohio's proposal is viewed in the larger context, we feel like AEP-Ohio used the PJM RPM to price capacity when the PJM rates were above AEP-Ohio's costs but, now, when the PJM RPM auction prices are at historic lows, AEP-Ohio is using "costs" to justify rate increases. Worse yet,

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1 AEP-Ohio will revert to using the PJM RPM auction to price capacity again in  
2 2015, when, as I understand it, those prices are predicted to increase again. In  
3 other words, we think AEP-Ohio's proposal lacks balance and fairness. This is  
4 particularly true when the proposal undermines our ability to manage the risk of  
5 rate impacts by shopping with a competitive supplier.

6 **Q19. AEP-OHIO HAS ARGUED THAT THE RSR HAS CUSTOMER BENEFITS,**  
7 **INCLUDING, PROVIDING CUSTOMERS WITH PRICE-TO-COMPARE DATA**  
8 **THAT IS TRANSPARENT, STABLE AND PREDICTABLE, AND PROVIDING**  
9 **FOR PRICING THAT IS MODERATE IN NATURE AND PROTECTS CERTAIN**  
10 **“AT RISK POPULATIONS” AND MANUFACTURING CUSTOMERS. DO YOU**  
11 **AGREE?**

12 A19. No. While an identical RSR charge for all customers that remains the same over  
13 the entire ESP period is stable as it is fixed, because it is the same for shopping  
14 and non-shopping customers, it would not be part of the price to compare. More  
15 importantly, as I have discussed, the RSR certainly does not provide for pricing  
16 that is moderate in nature and hurts, rather than helps, manufacturers.  
17 Specifically, AEP-Ohio appears to be portraying its capacity pricing proposal,  
18 which it states provides significantly discounted capacity from what AEP-Ohio  
19 would otherwise be willing to charge, as a benefit to customers that would not  
20 otherwise be achievable without the RSR. However, the starting point should  
21 be the PJM RPM price because it is what customers would otherwise pay or  
22 what served as the basis for capacity pricing in the negotiated rate of shopping  
23 customers. Thus, when the issue is properly framed, it is clear that AEP-Ohio's

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1 capacity pricing proposal is actually a significant increase – not a discount.  
2 Piling on the RSR to shopping and non-shopping customers to make AEP-Ohio  
3 whole for its fully loaded capacity costs only serves to make all AEP-Ohio  
4 customers worse off than its above-market capacity pricing proposal alone.  
5 When properly framed that way, I see no way that the combination of the  
6 capacity pricing proposal and the RSR provide pricing that is moderate in  
7 nature.

8 **Q20. PLEASE SUMMARIZE YOUR CONCLUSIONS.**

9 A20. For the reasons I discussed, AEP-Ohio's capacity pricing proposal is not  
10 reasonable and should be rejected. Similarly, AEP-Ohio's RSR is not  
11 reasonable and should be rejected. The Commission should revert back to  
12 using the PJM market rate as the state capacity cost compensation mechanism.

13 **Q21. DOES THIS CONCLUDE YOUR TESTIMONY?**

14 A21. Yes, it does. I'd like to thank the Commission for the opportunity to provide  
15 information about the impact on OSCO for the Commission's consideration.  
16

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**CERTIFICATE OF SERVICE**

The undersigned hereby certifies that a copy of the foregoing Testimony was served upon the parties of record listed below this 4<sup>th</sup> day of May 2012 via electronic mail.



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Summary: Testimony of OSCO Industries, Inc. (Public - Redacted Version) on behalf of The OMA Energy Group electronically filed by Teresa Orahoud on behalf of The OMA Energy Group