

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.)

**DIRECT TESTIMONY OF THE SUMMITVILLE TILES, INC.
ON BEHALF OF THE OMA ENERGY GROUP**

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On behalf of the OMA Energy Group

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1 I. INTRODUCTION

2 Q1. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

3 A1. My name is David W. Johnson. My business address is 15364 State Route 644,
4 Summitville, Ohio 43962.

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

6 A2. I am employed by Summitville Tiles, Inc. ("Summitville") as the Chief Executive
7 Officer and Chairman of the Board.

8 Q3. ON WHOSE BEHALF ARE YOU OFFERING TESTIMONY?

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

12 Q4. PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE.

13 A4. I have been employed by Summitville for over 30 years now.

**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 on my company of AEP-
19 Ohio's proposals for pricing capacity and the Retail Stability Rider ("RSR").
20 Specifically, my testimony describes Summitville's impact on the State and local
21 economy, the estimated impact of the capacity price proposal and the RSR
22 would have on Summitville's electricity rate, how Summitville will likely have to

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respond, and Summitville'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 my 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. Summitville has two manufacturing plants in Minerva, Ohio and is headquartered in Summitville, Ohio with a combined total of 150 full time employees.

Q9. WHAT BENEFITS DOES YOUR COMPANY PROVIDE TO OHIO?

A9. During the last decade, the time period during which Summitville was forced to close two manufacturing facilities and sixteen distribution centers and lay off 450 employees, we have put more than \$190 million into the economy in payroll, healthcare and pension contributions, and payments to our vendors. See the Impact Statement attached hereto as Exhibit 1. Included in this figure are over \$8.4 million in federal, state and local taxes, \$1.2 million of which were in Ohio withholding taxes. So, I would say that, even as we were fighting to save our company, we have had a dramatic impact upon Ohio's economy, particularly in rural eastern Ohio. Celebrating our 100th year in business this year, we are the only charter member of our national trade association to remain in business.

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 SUMMITVILLE.

A12. Electricity is a significant cost for Summitville, and 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 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 Summitville, 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
\$250,000	\$162,400	\$68,200

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 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

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1 final true-up of the RSR to make sure AEP-Ohio did not under- or over-collect
2 the amount of revenue necessary to hit 10.5% return on equity.

3 **Q14. PLEASE DESCRIBE THE IMPACT OF AEP-OHIO'S RSR ON SUMMITVILLE.**

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

7 **Q15. PLEASE DESCRIBE THE COMBINED IMPACT OF AEP-OHIO'S CAPACITY
8 PRICING PROPOSAL AND THE RSR ON SUMMITVILLE.**

9 A15. Combined, over the three year ESP, depending on the capacity price, the impact
10 on Summitville's operations will be approximately \$[REDACTED], \$[REDACTED], or
11 \$[REDACTED].

12 **Q16. HAS SUMMITVILLE TAKEN ANY STEPS TO PROACTIVELY MANAGE ITS
13 ELECTRIC PRICING?**

14 A16. Yes. Electricity is a significant cost for Summitville, and we have shopped the
15 generation portion of our electric bills in recent years to take advantage of the
16 attractive market rates in order to continue to be competitive in our market sector.
17 However, as I understand AEP-Ohio's proposal on capacity pricing and the RSR,
18 even shopping customers, like Summitville, will pay. In other words, AEP-Ohio's
19 proposal thwarts our efforts to proactively manage our electricity costs and there
20 are no practical ways to mitigate the increases. These proposals hold customers
21 captive to higher rates and essentially serve as a tax on shopping.

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

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1 A17. The proposals separately and together would create an operational strain on
2 Summitville and would make us less competitive in the global market place as
3 we attempt to recover these costs in our product pricing. We will have less funds
4 for capital investments, worker training, hiring of new employees, and retention
5 of existing employees. Further, after a decade of restructuring, downsizing and
6 right-sizing our company, we had hoped to finally be able to provide modest
7 wage increases for our employees – many of whom have gone without wage
8 increases for nearly a decade. However, facing the prospect of a \$100,000 per
9 year increase in electricity costs, wage increases may have to take a back seat
10 to electricity increases.

11 **III. CONCLUSION**

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

14 A18. As a long-standing customer of AEP-Ohio, Summitville needs reliable service.
15 We also understand that AEP-Ohio needs to be fairly compensated for the
16 service it provides. However, when AEP-Ohio's proposal is viewed in the larger
17 context, we feel like AEP-Ohio used the PJM RPM to price capacity when the
18 PJM rates were above AEP-Ohio's costs but, now, when the PJM RPM auction
19 prices are at historic lows, AEP-Ohio is using "costs" to justify rate increases.
20 Worse yet, AEP-Ohio will revert to using the PJM RPM auction to price capacity
21 again in 2015, when, as I understand it, those prices are predicted to increase
22 again. In other words, we think AEP-Ohio's proposal lacks balance and fairness.

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1 This is particularly true when the proposal undermines our ability to manage the
2 risk of rate impacts by shopping with a competitive supplier.

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

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

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1 customers worse off than its above-market capacity pricing proposal alone.
2 When properly framed that way, I see no way that the combination of the
3 capacity pricing proposal and the RSR provide pricing that is moderate in
4 nature.

5 **Q20. PLEASE SUMMARIZE YOUR CONCLUSIONS.**

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

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

11 A21. Yes, it does. I'd like to thank the Commission for the opportunity to provide
12 information about the impact on Summitville for the Commission's consideration.
13

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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 4th day of May 2012 via electronic mail.



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Summary: Testimony of Summitville Tiles, Inc. (Public - Redacted Version) on behalf of The OMA Energy Group electronically filed by Teresa Orahod on behalf of The OMA Energy Group