EXHIBIT NO. ______

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Ormet	)	
Primary Aluminum Corporation for	)	
Approval of a Unique Arrangement with	)	Case No. 09-119-EL-AEC
Ohio Power Company	)	

DIRECT TESTIMONY
OF
DAVID M. ROUSH
ON BEHALF OF
OHIO POWER COMPANY

Filed: August 16, 2013

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DAVID M. ROUSH

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BEFORE
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DIRECT TESTIMONY OF
DAVID M. ROUSH
ON BEHALF OF
OHIO POWER COMPANY

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is David M. Roush. My business address is 1 Riverside Plaza, Columbus, Ohio 43215.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed as Director - Regulated Pricing and Analysis for American Electric Power Service Corporation (AEPSC), a wholly owned subsidiary of American Electric Power Company, Inc. (AEP). AEP is the parent company of Ohio Power Company (OPCo), referred to as AEP Ohio or the Company.

Q. PLEASE BRIEFLY DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND?

A. I graduated from The Ohio State University (OSU) in 1989 with a Bachelor of Science degree in mathematics with a computer and information science minor. In 1999, I earned a Master of Business Administration degree from The University of Dayton. I have completed both the EEI Electric Rate Fundamentals and Advanced Courses. In 2003, I completed the AEP/OSU Strategic Leadership Program.

In 1989, I joined AEPSC as a Rate Assistant. Since that time I have progressed through various positions and was promoted to my current position of Director – Regulated Pricing and Analysis in June 2010. My responsibilities include the oversight of the preparation of cost-of-service and rate design analyses for the AEP System operating companies, and oversight of the preparation of special contracts and pricing for customers.

Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN ANY REGULATORY PROCEEDINGS?

A. Yes. I have submitted testimony before the Public Utilities Commission of Ohio (Commission), the Indiana Utility Regulatory Commission, the Michigan Public Service Commission, the Public Service Commission of Kentucky and the Public Service Commission of West Virginia regarding cost-of-service, rate design and other rates and tariff related issues.

<u>PURPOSE OF TESTIMONY</u>

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to discuss the requests made by Ormet Primary Aluminum Corporation (Ormet) in its Motion to Amend the previously-approved Unique Arrangement (Contract). Specifically, I address certain issues related to pricing under the Contract and the potential impact on AEP Ohio customers. My testimony does not address all of the Company's policy or legal positions, including matters relating to the bankruptcy proceeding.

Q. WHAT EXHIBITS ARE YOU SPONSORING?

A. I am sponsoring the following exhibits:

Exhibit DMR-1	Estimated Costs of Ormet's Proposal
Exhibit DMR-2	Estimated Impact of Ormet's Proposal
Exhibit DMR-3	Non-Shopping Alternative

Exhibit DMR-4 Contract Termination Fee – Capacity Component

Exhibit DMR-5 Contract Termination Fee – Fixed FAC Component

TERMS OF CURRENT AGREEMENT

Q. PLEASE BRIEFLY DESCRIBE THE CURRENT CONTRACT BETWEEN AEP OHIO AND ORMET.

A. Under the Contract, AEP Ohio agreed to furnish to Ormet and Ormet agreed to take from AEP Ohio all of the electric energy to meet Ormet's requirements up to 540 MW through December 31, 2018.[1] Ormet purchases its entire requirements from AEP Ohio with 50% of the usage initially priced at Columbus Southern Power rate zone Schedule GS-4 rates and 50% of the usage initially priced at Ohio Power rate zone Schedule GS-4 rates (AEP Ohio Tariff Rate).[2] Further, the Contract provides for a discount or premium to the AEP Ohio Tariff Rate based upon Ormet specific factors such as cash flow and legacy costs and the London Metals Exchange (LME) price for high grade aluminum.[3] Under the Contract, the Maximum Rate Discount was limited as follows:

Year	Maximum Rate Discount
2010	$60 million
2011	$60 million
2012	$54 million
2013	$44 million
2014	$34 million
2015	$24 million
2016	$14 million
2017	$ 4 million
2018	$ 0 million

[1] Contract Articles 2.01, 2.02 and 4.01.
[2] Contract Article 1.01.
[3] Contract Articles 1.02, 1.03, 1.04, 1.13, 1.16, 1.17, 1.23, 5.03, 5.05, 5.07, 5.08, 5.09 and 6.01 relate to 2012 through 2018, additional Articles address specifics related to 2009, 2010 and 2011.

To date, Ormet has received the maximum rate discount each year and the LME price has never been high enough to invoke the Contract provisions wherein Ormet would pay a premium above the AEP Ohio Tariff Rate. In fact, Ormet's Indexed Rate under the existing Contract[4] has shown that due to the low LME prices Ormet has needed free electricity since March 2013 in order to sustain its operations and pay its required legacy costs. Further, the discount funding Ormet proposes for 2013 and 2014 exceeds Ormet's estimated total annual payroll.[5]

<u>ORMET'S PROPOSED MODIFICATIONS</u>

Q. PLEASE BRIEFLY DESCRIBE ORMET'S PROPOSED MODIFICATIONS TO THE CURRENT CONTRACT BETWEEN AEP OHIO AND ORMET.

A. In its June 14, 2013 filing, Ormet proposes the following changes to the Contract:

1. Shorten the term of the contract by 3-years to end December 31, 2015.
2. Fix the annual generation price for calendar 2013 at $45.89 /MWh before discounts.
3. Allow Ormet to select a CRES Provider for service commencing on January 1, 2014.
4. Increase the annual discount for 2013 to $66 million and increase the annual discount for 2014 to $54 million.
5. Assign the modified Contract to Smelter Acquisition LLC.
6. Provide a discount of $4.5 million per month in January through May 2015.

[4] Article 1.13 - The formula for determining what Ormet could pay that would produce sufficient cash flow to sustain its operations at the Hannibal Facilities and to pay its required legacy costs.
[5] Ormet's June 14, 2013 Motion to Amend, page 5 – When the Hannibal Facility is operating at capacity, Ormet employs approximately 1,000 people with wages and salaries totaling approximately $66 million per year.

7. Provide a shopping credit of $9 / MWh through May 31, 2015 on usage for potlines 5 and 6, should they be restarted – anticipated no earlier than July 1, 2014.

8. Pay the deferred bills for October and November 2012 usage over the 24 months January 2014 through December 2015.

9. Establish new LME target prices for 2013, 2014 and the first five months of 2015.

10. Provide a shopping credit of $6 /MWh during any portion or all of the June 1, 2015 through December 31, 2015 period on Ormet's entire usage if Ormet's proposed power plant is not in full operation due to weather, regulatory, financial or other factors outside the control of Ormet.

In addition, Ormet proposes to file with the Commission a confidential business plan and detailed construction plan associated with the construction of an on site power plant which will support the ongoing operation of the Ormet facility.

Q. HAVE YOU QUANTIFIED THE POTENTIAL IMPACT OF THESE PROPOSALS?

A. Yes. To the extent reasonably possible at this time, Exhibit DMR-1 includes an estimate of the potential cost of each element of Ormet's proposal. Further, Exhibit DMR-2 summarizes the costs by time period and computes an estimate of the impact on other AEP Ohio customers on a dollar per MWh basis and on a dollar per customer per month basis.

Q. WOULD THERE BE AN IMPACT ON THE RATES OF OTHER AEP OHIO CUSTOMERS IF ORMET SHUTS DOWN?

A. Let me begin by saying that it is AEP Ohio's desire that Ormet be able to self-sustain its operations. If Ormet did close, however, there would no longer be delta revenues under the Contract, which would result in reduced Economic Development Rider charges for AEP Ohio customers. Under the current contract for 2014, this amount would be $34 million (approximately $2.8 million per month). Any such savings for AEP Ohio's other customers would be offset by a number of items, such as:

- Ormet would no longer contribute to paying the deferrals under the Phase-In Recovery Rider (approximately $0.5 million per month);
- Ormet would no longer contribute to paying the fixed costs portion of the FAC (approximately $1.0 million per month);
- Ormet would no longer pay the Energy Efficiency and Peak Demand Reduction Rider or contribute to the Universal Service Fund (approximately $0.14 million per month); and
- Ormet would no longer pay the Retail Stability Rider (approximately $0.7 million per month), which could result in an adjustment to the Rider rate as well as result in a larger deferral balance obligation for all other AEP Ohio customers.

The net of the above amounts is $0.46 million per month.

Q. HAS ORMET MADE AN ADDITIONAL PROPOSAL SINCE JUNE 14, 2013?

A. Yes, on July 31, 2013, Ormet filed a motion requesting that the Commission issue an order allowing it to defer its payment of its August and September bills (and any other AEP Ohio bills that would be due before the Commission decision on the June 14, 2013

Motion). Under Ormet's proposal, Ormet would pay the deferred invoices within five business days of the closing of the sale to Smelter Acquisition, LLC. Assuming a simple debt financing cost for at least 3 months, the cost of this proposal could be $50,000 or more.

COMPANY POSITION

Q. WHAT IS THE COMPANY'S POSITION REGARDING ORMET'S PROPOSED MODIFICATIONS TO THE CURRENT CONTRACT?

A. First and foremost, I have been advised by counsel that Ormet is not legally permitted to shop for generation service during the period of time covered by the proposed amendments. While I am not testifying as to the ultimate meaning of the Commission's orders, my testimony incorporates this legal position of the Company. Given this legal position, rather than approving Ormet's proposals, an alternative would be to modify the discount under the current Contract to achieve the equivalent financial outcome as Ormet's proposal. While I do not know what pricing Ormet might be able to achieve by shopping, I have prepared illustrative calculations assuming Ormet's target price is similar to Ormet's proposed 2013 price. These calculations are shown in Exhibit DMR-3.

Q. NOTWITHSTANDING THE COMPANY'S LEGAL POSITION, DOES THE COMPANY HAVE ANY OTHER ALTERNATIVES FOR THE COMMISSION TO CONSIDER?

A. Yes. AEP Ohio recognizes that this situation is quite challenging and that the Commission's evaluation of a reasonable arrangement considers a number of factors. As such, AEP Ohio's position is that it will only voluntarily accept Ormet's shopping proposal if an appropriate contract termination fee is paid to AEP Ohio.

Q. WHAT WOULD AN APPROPRIATE CONTRACT TERMINATION FEE BE?

A. An appropriate contract termination fee would be set to protect the Company and its other customers from harm resulting from this latest change in Ormet's plans regarding electric service. This is not the first time that Ormet has decided to leave service from Ohio Power Company to procure electric service in the market. However, unlike the previous occurrence which was at the end of a contractual term, this change is being proposed in the middle of an existing Contract term under which the Company has planned to fulfill its obligations to Ormet.

Since Ormet is a Standard Service Offer customer and the Company expects to purchase the requirements of Standard Service Offer customers through an auction process beginning in June 2015, it is reasonable to evaluate a contract termination fee over the period January 1, 2014 through May 31, 2015. During that period, the Company planned to meet Ormet's needs under the terms of the Contract from its own resources. Under Ormet's proposal, Ormet will now shop for its electric service beginning January 1, 2014 and a reasonable component of the contract termination fee should be the difference between the FRR capacity revenues that the Company would receive during 2014 and the base generation revenues that it would have received under the Contract. Beginning in 2015, those values would be equivalent. This amount for calendar 2014 is approximately $18 million for a 6 potline operation as shown in Exhibit DMR-4.

Further, since the CRES provider that would be serving Ormet would pay the RPM auction clearing price and not $188.88 /MW-day, any deferrals under the Retail

Stability Rider would increase. This cost is a direct result of allowing Ormet to shop and would be approximately $16 million for January 2014 through May 2015 as also shown in Exhibit DMR-4. This amount would not be retained by the Company, but would be credited against the RSR deferrals that all customers pay.

In addition, as a Standard Service Offer customer of AEP Ohio, Ormet would have continued to pay the FAC over the period January 1, 2014 through May 31, 2015. Since the FAC includes certain fixed costs that Ormet would have paid under the Contract, it is reasonable for Ormet to continue to pay those fixed costs rather than all other AEP Ohio standard service offer customers. This amount for the 17-month period is approximately $27 million for a 6 potline operation as shown in Exhibit DMR-5. This amount would not be retained by the Company, but would be credited against the FAC rates that all non-shopping customers pay.

Q. ARE THERE RATE-RELATED ISSUES WITH ORMET'S PROPOSAL TO CONSTRUCT A POWER PLANT?

A. Yes. Specifically, it needs to be clear that Ormet's total usage, and not its usage net of generation, should be used for continued billing of all non-bypassable/wires charges. Examples of such charges include the Phase-In Recovery Rider (PIRR), or any successor thereto upon securitization, and the Retail Stability Rider (RSR). With respect to the PIRR, Ormet benefited from paying less than the full fuel costs which resulted in the deferrals that are being collected in the PIRR and should not be able to avoid paying back such deferrals by constructing a power plant. Similar logic applies with respect to the RSR, particularly given Ormet's proposal to shop.

Q. DO YOU HAVE ANY CONCERNS WITH RESPECT TO ORMET'S PROPOSED SHOPPING CREDITS?

A. Yes. Ormet's entire bill for distribution service including non-bypassable charges such as the PIRR and RSR is less than $ 6 / MWh. Ormet's proposed shopping credits in 2014 and 2015 of $9 / MWh and $6 / MWh would result in Ormet being paid by AEP Ohio's other customers an amount greater than Ormet's regulated electric service charges. I have been advised by counsel that a subsidy of competitive generation service provided by a CRES is not permissible under Ohio law. While I am not testifying as to the ultimate meaning of the Commission's orders, my testimony incorporates this legal position of the Company. Should the Commission approve any level of shopping credit, such funding would need to come from all other AEP Ohio customers through the Economic Development Rider in the same manner as the other discounts proposed by Ormet.

<u>CONCLUSION</u>

Q. WHAT DOES THE COMPANY RECOMMEND?

A. The Company recognizes that the Commission is again faced with a difficult decision with respect to Ormet. The Company has endeavored to provide useful information and identify potential issues in Ormet's proposal. If the Commission deems a modification to Ormet's contract is warranted, any such modification should provide for full delta revenue recovery and should recognize the costs that were incurred in good faith by the Company under the existing Contract and implement the contract termination fee proposed by the Company.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes it does.

Estimated Costs of Ormet's Proposal

2. Fix the annual generation price for calendar 2013 at $45.89 /MWh before discounts.

Estimated 2013 Usage	2,235	GWh
Estimated Generation Price before Discount	$ 0.04855	/GWh
Fixed Generation Price	$ 0.04589	/GWh
Difference	$ 0.00266	
Estimated Cost	**$ 6**	million

3. Allow Ormet to select a CRES Provider for service commencing on January 1, 2014.

Contract Termination Fee - Capacity Component	**$ 18**	million	(See Exhibit DMR-4)
Contract Termination Fee - Capacity Deferral Component	**$ 16**	million	(See Exhibit DMR-4)
Contract Termination Fee - Fixed FAC Component	**$ 27**	million	(See Exhibit DMR-5)

4. Increase the annual discount for 2013 to $66 million and increase the annual discount for 2014 to $54 million.

Year	Original Discount	Revised Discount	Estimated Cost
2013	$ 44	$ 66	**$ 22**
2014	$ 34	$ 54	**$ 20**
2015	$ 24	$ -	**$ (24)**
2016	$ 14	$ -	**$ (14)**
2017	$ 4	$ -	**$ (4)**
2018	$ -	$ -	**$ -**
Total	$ 120 million	$ 120 million	**$ -** million

6. Provide a discount of $4.5 million per month in January through May 2015.

Monthly Discount	$4.5	million
Months	5	
Estimated Cost	**$22.5**	million

7. Provide a shopping credit of $9 / MWh through May 31, 2015 on usage for potlines 5 and 6, should they be restarted – anticipated no earlier than July 1, 2014.

Estimated Monthly Usage - 2 potlines	125	GWh
Months	11	
Shopping Credit	$ 0.009	/GWh
Estimated Cost	**$ 12.4**	million

8. Pay the deferred bills for October and November 2012 usage over the 24 months January 2014 through December 2015.

Financing Cost to Company over 24 Months	$1.5	million
Financing Cost to Company over 17 Months	$1.1	million
Estimated Cost	**$ 0.5**	million

10. Provide a shopping credit of $6 /MWh during any portion or all of the June 1, 2015 through December 31, 2015 period on Ormet's entire usage if Ormet's proposed power plant is not in full operation due to weather, regulatory, financial or other factors outside the control of Ormet.

Estimated Monthly Usage - 6 potlines	361	GWh
Months	7	
Shopping Credit	$ 0.006	/GWh
Estimated Cost	**$ 15.2**	million

Total of All Estimated Costs **$ 117** million

Exhibit DMR-2

Estimated Impact of Ormet's Proposal

($ in millions)	2013	2014	2015	2016	2017	2018	Total
Ormet Proposal							
Item 2.	$ 6						$ 6
Item 3.		$ 51	$ 10				$ 61
Item 4.	$ 66	$ 54	$ -	$ -	$ -	$ -	$ 120
Item 6.			$ 23				$ 23
Item 7.			$ 7	$ 6			$ 12
Item 8.			$ 0.5				$ 0.5
Item 10.			$ 15				$ 15.2
Total	$ 72	$ 105	$ 55	$ 6	$ -	$ -	$ 237
Current Contract	$ 44	$ 34	$ 24	$ 14	$ 4	$ -	$ 120
Incremental Costs							
Cost to Company		$ 18	$ 0.5				$ 19
Cost to Other Customers	$ 28	$ 53	$ 30	$ (8)	$ (4)	$ -	$ 99
Total	$ 28	$ 71	$ 31	$ (8)	$ (4)	$ -	$ 117

Approximate Incremental Impact on Other Customers						
Cost to Other Customers	$ 28	$ 53	$ 30	$ (8)	$ (4)	$ -
Total Load (MWh)	46,906,082	46,906,082	46,906,082	46,906,082	46,906,082	46,906,082
Cost ($ / MWh)	$ 0.60	$ 1.13	$ 0.64	$ (0.18)	$ (0.09)	$ -
Number of Customers	1,460,392	1,460,392	1,460,392	1,460,392	1,460,392	1,460,392
Cost ($ / Customer / Month)	$ 1.60	$ 3.04	$ 1.71	$ (0.48)	$ (0.23)	$ -

Exhibit DMR-3

Non-Shopping Alternative

FAC/Auction at $40

Year	Original Discount		Revised Discount		Estimated Cost	
2013	$ 44		$ 72		**$ 28**	
2014	$ 34		$ 67		**$ 33**	
2015	$ 24		$ 23		**$ (1)**	
2016	$ 14		$ -		**$ (14)**	
2017	$ 4		$ -		**$ (4)**	
2018	$ -		$ -		**$ -**	
Total	$ 120	million	$ 162	million	**$ 42**	million

Ormet would not shop until June 1, 2015

Additional Monthly Discount of $1.5 million per month for each month that potlines 5 & 6 operate during 2014 and January through May 2015

FAC/Auction at $45

Year	Original Discount		Revised Discount		Estimated Cost	
2013	$ 44		$ 72		**$ 28**	
2014	$ 34		$ 81		**$ 47**	
2015	$ 24		$ 29		**$ 5**	
2016	$ 14		$ -		**$ (14)**	
2017	$ 4		$ -		**$ (4)**	
2018	$ -		$ -		**$ -**	
Total	$ 120	million	$ 181	million	**$ 61**	million

Ormet would not shop until June 1, 2015

Additional Monthly Discount of $2.2 million per month for each month that potlines 5 & 6 operate during 2014 and January through May 2015

Contract Termination Fee - Capacity Component

(1)	Average Monthly Usage - 6 potlines		361	GWh
(2)	Base Generation Rates	$	10.57	/MWh
(3)	Months (January through December 2014)		12	months
(4) = (1) x (2) x (3) / 1000	Base Generation Revenue	$	46	million
(5)	Capacity Revenue at $188.88 / MW-Day	$	28	million
(6) = (4) - (5)	Contract Termination Fee - Capacity Component	**$**	**18**	million

Contract Termination Fee - Capacity Deferral Component

		2014	Jan-May 2015	Total	
(7) = (5)	Capacity Revenue at $188.88 / MW-Day	$ 28	$ 9	$ 37	million
(8)	Capacity Revenue at RPM	$ 13	$ 8	$ 21	million
(9) = (7) - (8)	Contract Termination Fee - Capacity Deferral Component	$ 14	$ 2	**$ 16**	million

Exhibit DMR-5

Contract Termination Fee - Fixed FAC Component

(1)	Average Monthly Usage - 6 potlines		361	GWh
(2)	Estimated Fixed FAC Component	$	0.004	/ GWh
(3)	Months (January 2014 through May 2015)		17	
(4) = (1) x (2) x (3)	Contract Termination Fee - Fixed FAC Component	**$**	**27**	million