



M E M O R A N D U M

Date: December 18, 2014

To: Ohio Manufacturers' Association

From: John Seryak, PE (RunnerStone, LLC)

RE: Cost of FirstEnergy and AEP-Ohio Proposed Power-Purchase Agreements (PPAs) for Manufacturers of Different Sizes

FirstEnergy, AEP-Ohio, and Duke Energy have proposed power-purchase agreements with their deregulated subsidiaries for various terms. FirstEnergy and AEP-Ohio's proposals are significantly larger than Duke. The table below presents cost estimates for small, medium, large, and extra-large manufacturers in FirstEnergy and AEP-Ohio territory. We present the approximate costs of these power-purchase agreements for the next 3 years, per year and total.

For example, a "large" manufacturer in FirstEnergy territory (one spending about \$6 million per year in electricity) would pay about \$850,000 additional over this 3-year period, or about \$285,000 /year.

	Consumption (kWh/year)	FirstEnergy		AEP	
		\$ /year	Total for 3-year ESP	\$ /year	Total for next 3-years
Small (~\$100k/yr in electricity costs)	1,000,000	\$2,843	\$8,529	\$4,276	\$12,828
Medium (~\$600k/yr in electricity costs)	7,500,000	\$21,322	\$63,967	\$32,069	\$96,206
Large (~\$6 million/yr in electricity costs)	100,000,000	\$284,296	\$852,888	\$427,584	\$1,282,752
Extra Large	1,000,000,000	\$2,842,958	\$8,528,875	\$4,275,841	\$12,827,523
Territory Total			\$464,000,000		\$546,000,000

- Where do the cost estimates come from?
 - Total costs are from the utilities' own testimony at the PUCO¹. We then estimate costs per manufacturer by assuming the total costs are equally distributed among ratepayers based on annual electricity use (kWh/year). Costs could be distributed among ratepayers based on peak demand (kW), which would result in less costs to manufacturers and more costs to the residential and commercial sector.

¹ FirstEnergy costs in Case #14-1297, Testimony of Ruberto, Attachment JAR-1; AEP-Ohio costs in Case #14-1693, Testimony of Pearce, Exhibit KDP-2, plus an estimate of OVEC costs from witness Gonzalez



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- How certain are these cost estimates?
 - There is general agreement that the proposals will create costs for consumers in the near term. There is, however, some uncertainty to the severity of the costs. FirstEnergy presents only one scenario, that of a \$464 million cost. AEP-Ohio presents several scenarios. According to AEP, there are potential “savings” to customers only if wholesale electricity prices increase significantly.