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PRMET PRIMARY ALUMINUM CORP.

❖ Summary of document:

TESTIMONY - JAMES BURNS RILEY

6/1/09

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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
Ohio Power Company and Columbus
Southern Power Company

Docket No. 09-119-EL-AEC

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2009 JUN -1 AM 9:35
PUCOSUPPLEMENTAL DIRECT TESTIMONY OF JAMES BURNS RILEY
ON BEHALF OF ORMET PRIMARY ALUMINUM CORPORATION

May 29, 2009

1 Q. PLEASE STATE YOUR NAME, TITLE, AND PLACE OF BUSINESS.

2 A. My name is James Burns Riley. I am the Chief Financial Officer of Ormet Corporation,
3 which is the parent corporation of Ormet Primary Aluminum Corporation ("Ormet"). My
4 business address is 43840 State Route 7, P.O. Box 176, Hannibal, OH 43931.

5 Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS PROCEEDING?

6 A. Yes. I filed direct testimony on April 23, 2009.

7 Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY?

8 A. The purpose of my supplemental testimony is to provide further information regarding
9 the rate Ormet is proposing for 2009. I was unable to disclose this information earlier
10 due to the status of the litigation surrounding our tolling agreement with Glencore, LTD.
11 That case has since advanced to a stage which has enabled Ormet to release its first
12 quarter results. Based on the release of our first quarter results, I am now able to provide
13 the Commission and the parties with further information regarding how Ormet developed
14 the \$38/MWh rate and \$34/MWh rate that Ormet has proposed for 2009.

1 **Q. PLEASE IDENTIFY ANY EXHIBITS AND ASSOCIATED MATERIALS YOU**
2 **ARE SPONSORING IN ADDITION TO YOUR TESTIMONY?**

3 A. I am sponsoring Exhibits ORM-12, ORM-13, ORM-14, ORM-15, and ORM-16 in
4 addition to my testimony today. Exhibit ORM-12 shows how the proposed 2009 rates for
5 electricity relate to Ormet's need to refinance its outstanding debt. Exhibit ORM-13 is an
6 Income Statement Forecast for calendar year 2009. Exhibit ORM-14 is a Cash Flow
7 Forecast for calendar year 2009. Exhibit ORM-15 is a Balance Sheet for the period
8 ending December 31, 2009, and Exhibit ORM-16 is an Ormet Borrowing Base Certificate
9 with Wachovia.

10 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**
11 **PROFESSIONAL EXPERIENCE.**

12 A. I hold a BBA degree in Industrial Management from The University of Cincinnati. I also
13 hold an MBA from Miami University in Finance. Prior to my current position I held
14 executive-level financial positions for over 20 years.

15 **Q. HOW LONG HAVE YOU BEEN WITH ORMET?**

16 A. I have been in my current position with Ormet Corporation since July 1, 2007.

17 **Q. PLEASE DESCRIBE YOUR RESPONSIBILITIES AT ORMET AND TO WHOM**
18 **YOU REPORT.**

19 A. My responsibilities include the oversight of all financial and IT functions and I report to
20 Mr. Michael Tanchuk, President and CEO.

1 **Q. WHAT ADDITIONAL INFORMATION ARE YOU NOW ABLE TO PROVIDE**
2 **REGARDING ORMET'S CALCULATIONS OF THE RATE FOR 2009?**

3 A. I am now able to provide the forecasts that were used to calculate the electricity rates for
4 2009 proposed in the Application filed by Ormet on February 17, 2009, which are
5 attached as Exhibits ORM-13, ORM-14 and ORM-15.

6 **Q. WHEN WERE THE FORECASTS PREPARED?**

7 A. The forecasts were prepared in conjunction with our Application submitted on February
8 17, 2009.

9 **Q. DO YOU BELIEVE THAT THEY REASONABLY REFLECT ORMET'S**
10 **EXPECTED PERFORMANCE FOR THE YEAR 2009?**

11 A. I am providing the forecasts that Ormet relied upon in filing its Application. They
12 assume an electricity rate of \$38/MWh for the full year, full production at the smelter,
13 and credit terms consistent with the proposed Application. The situation with Glencore
14 has already required Ormet to decrease production, and unless we are made whole
15 through the arbitration process, this forecast will be optimistic.

16 **Q. WHAT DOES EXHIBIT ORM-12 SHOW?**

17 A. Exhibit ORM-12 shows that based on the assumptions described above, Ormet's cash
18 balance plus its borrowing capability will be just sufficient to meet its refinancing
19 obligation at the end of 2009. Specifically, as shown on line 4, Ormet's cash balance at
20 the end of 2009 is projected to be \$33.8 million, assuming an electricity rate of
21 \$38/MWh, full production, and standard credit terms (including AEP's return of the
22 deposit to Ormet). As shown on line 5, Ormet's existing borrowing capability is only
23 \$20.3 million. As a result, Ormet's ability to either refinance or retire debt is equal to
24 \$54.1 million. As shown on line 1, Ormet will be required to retire or refinance the \$53.3

1 million of long term debt currently outstanding, leaving little margin for error in the
2 financial outlook.

3 **Q. WHAT DOES EXHIBIT ORM-13 SHOW?**

4 A. Exhibit ORM-13 is an Income Statement Forecast for calendar year 2009. The price of
5 electricity (in this case assumed to be \$38/MWh) is incorporated into the "Cost of Sales"
6 line of the sheet. At the bottom of the sheet, it shows that Ormet's net income for 2009 is
7 expected to be \$51,096,000.00, which is the starting point for projecting the cash flow for
8 2009 as shown in Exhibit ORM-14.

9 **Q. WHAT DOES EXHIBIT ORM-14 SHOW?**

10 A. Exhibit ORM-14 is a Cash Flow Forecast for calendar year 2009. The \$51,096,000 net
11 income figure from Exhibit ORM-13 appears in the first line of the sheet. At the bottom
12 of the sheet, it shows that Ormet Corporation is projected to have \$33,782,000 in cash at
13 the end of the 4th Quarter of 2009.

14 **Q. IS THERE ANYTHING ELSE OF NOTE REGARDING EXHIBIT ORM-14?**

15 A. Yes. The \$31,896,000 figure for 2nd Quarter Net Change in Working Capital assumes the
16 return to Ormet of the deposit currently being held by AEP-Ohio and the implementation
17 of standard tariff terms of billing twenty-one days in arrears. If Ormet is required to
18 continue to keep a cash deposit with AEP-Ohio or is not allowed standard credit terms,
19 that number will decrease substantially. Additionally, the \$8,000,000 figure for Proceeds
20 From Sale of Assets reflects the proceeds of the sale of certain assets associated with
21 Ormet's Burnside, Louisiana facilities which have not materialized to date.

22 **Q. PLEASE DESCRIBE EXHIBIT ORM-15.**

23 A. Exhibit ORM-15 is a Proforma Balance Sheet for the period ending December 31, 2009.
24 It shows Long Term Debt of \$53,329,000 at the end of 2009. That debt is due November

2010 and must be refinanced as part of a holistic refinancing, because Ormet will not be able to put a bank agreement in place in February 2010 that would allow the payment of junior debts later in the year. In order that Ormet would obtain a clean opinion from our auditors for 2009 and to achieve a successful refinancing of its bank debt, it will need to do one blanket refinancing in early 2010.

Q. PLEASE DESCRIBE EXHIBIT ORM-16.

A. Exhibit ORM-16 is a Wachovia Borrowing Base Certificate for Ormet Corporation, which shows the financing available to Ormet as of April 30, 2009. The \$40,000,000 shown in lines 11, 12, and 13 reflects a letter of credit from Deutsche Bank which supports the Supplemental Loan Facility that expires on February 14, 2010, and will no longer be available, requiring Ormet to refinance prior to its expiration. The negative \$2,000,000.00 figure at line 10a for the Burnside Land Sale Reserve should not be an issue with a new facility, and so the \$18,325,133.99 figure at line 12 will increase by \$2,000,000.00, leaving Ormet with a \$20,325,133.99 borrowing capability.

Q. WHAT IS THE SIGNIFICANCE OF THESE EXHIBITS?

A. Taken together, these exhibits demonstrate that an electricity price of \$38/MWh, along with the forecast assumptions described above, would produce enough cash flow to enable Ormet to refinance its long term debt in 2009. As I've already noted, that forecast appears to be somewhat overstated based on actual reduced production levels and the fact that the sale of the Burnside facility has not yet been consummated.

Q. HOW DID YOU DETERMINE THE \$34/MWh RATE WAS APPROPRIATE IF ORMET REDUCED OPERATIONS IN 2009?

A. In this scenario, we are proposing to maintain employment at a minimum of 900 employees despite reduced production so that we can rapidly return to full production

1 levels when the LME price returns to more sustainable levels, as expected in 2010. At
2 the reduced level, the smelter would produce approximately 7,305 metric tons per month
3 less than the full production assumed in the original Application. Operating at this level
4 would normally result in a force reduction of approximately 290 employees. The
5 difference between the cost of keeping a minimum of 900 employees working versus the
6 direct hourly payroll cost for the employee that would otherwise be laid off would be
7 approximately \$20.73 per hour worked. If Ormet paid \$34/MWh rather than \$38/MWh
8 on approximately 259,738 MWh per month, which would be approximate consumption at
9 the reduced level, the reduction in the price of electricity would offset the incremental
10 cost of retaining the extra employees.

11 **Q. PLEASE PROVIDE AN UPDATE REGARDING THE LITIGATION WITH**
12 **GLENCORE.**

13 **A.** The Arbitration Tribunal has agreed to hear the case on an expedited basis and therefore
14 the federal case has been dismissed without prejudice. The first hearing is scheduled for
15 June 1st and Ormet is requesting an interim order that would require Glencore to provide
16 alumina to allow the smelter to operate at 4.6 potlines through the time that the final
17 hearing results are determined, which could be later this summer. This operating level is
18 the minimum consistent with maintaining compliance with our bank covenants. If that
19 outcome is achieved, Ormet may modify its request in this proceeding to establish a rate
20 consistent with a 4.6 potline operation.

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

22 **A.** Yes it does.

**ORMET PRIMARY ALUMINUM
PROJECTED DEBT FINANCING REQUIREMENT
For the year 2009**

Line		Amount (\$)	Source
1	Long Term Debt due November 2010	<u>53,329,000</u>	ORM-16
2	Cash Balance at 12/31/08	3,650,000	ORM-15
3	Net Cash Flow 2009	<u>30,132,000</u>	ORM-14
4	Cash Balance at 12/31/09	<u>33,782,000</u>	ORM-14
5	Ormet Borrowing Base	<u>20,325,134</u>	ORM-16
6	Total Available to Meet Debt Obligation	<u>54,107,134</u>	
7	Cash in Excess of Financing Requirement	<u>778,134</u>	line 6 - line 1

In connection with the submittal of this exhibit in support of Ormet's case; the projected financial information contained herein was prepared using the best information in February 2009. They will not be updated on an on-going basis. The projections reflect numerous assumptions concerning Ormet's future performance and with respect to prevailing and anticipated market and economic conditions which are beyond our control and which may not materialize. Actual results may vary significantly from those contemplated in the projections. For example, the impact of the current arbitration with Ormet's sole customer, Glencore.

Ormet Corporation
Will not be updated

	Ormet Proforma Income Statement Forecast \$(000)				
	1st qtr	2nd qtr	3rd qtr	4th qtr	Year 2009
Net Sales	\$ 133,967	\$ 135,759	\$ 137,431	\$ 138,994	\$ 546,151
Cost Of Sales	118,801	117,785	111,042	112,749	460,377
Gross Profit	\$ 15,166	\$ 17,974	\$ 26,389	\$ 26,245	\$ 85,774
SG&A	6,007	6,039	5,754	6,058	23,858
Operating Income	\$ 9,159	\$ 11,935	\$ 20,635	\$ 20,188	\$ 61,916
Interest Expense/Fees	3,804	3,566	3,331	3,308	14,009
Other (Income) Expense	(4,825)	150	129	98	(4,448)
Income (Loss)< Taxes	\$ 10,180	\$ 8,218	\$ 17,175	\$ 16,782	\$ 52,356
Disc Ops	360	300	300	300	1,260
Tax Provision (Benefit)	-	-	-	-	-
Net Income	\$ 9,820	\$ 7,918	\$ 16,875	\$ 16,482	\$ 51,096

In connection with the submittal of this exhibit in support of Ormet's case; the projected financial information contained herein was prepared using the best information in February 2009. They will not be updated on an on-going basis. The projections reflect numerous assumptions concerning Ormet's future performance and with respect to prevailing and anticipated market and economic conditions which are beyond our control and which may not materialize. Actual results may vary significantly from those contemplated in the projections. For example, the impact of the current arbitration with Ormet's sole customer, Glencore.

Ormet Corporation
Will not be updated
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Ormet Corporation					
Proforma Cash Flow Forecast \$(000)					
	1st qtr	2nd qtr	3rd qtr	4th qtr	Year 2009
Proceeds From Operating					
Net Income (Loss)	\$ 9,820	\$ 7,918	\$ 16,875	\$ 16,482	\$ 51,096
Plus Non-Operating & Non Cash Items:					
Depreciation	\$ 3,522	\$ 3,710	\$ 3,896	\$ 4,144	\$ 15,271
Non Cash Compensation Exp.	804	746	717	717	2,984
Deferred Interest Expense	2,213	2,291	2,346	2,380	9,229
(Gain) Loss on Asset Sales	(4,975)	-	-	-	(4,975)
Amortization Of Financing Fees	882	882	882	882	3,528
Net Non Operating and Non Cash Items	\$ 2,445	\$ 7,628	\$ 7,841	\$ 8,123	\$ 26,038
Net Change In Working Capital	\$ (2,132)	\$ 31,896	\$ 12,478	\$ 987	\$ 43,229
All Other Operating	\$ (8,615)	\$ (5,128)	\$ (9,756)	\$ (7,128)	\$ (30,627)
Total Operations Cash Flow	\$ 1,519	\$ 42,314	\$ 27,439	\$ 18,464	\$ 89,735
Proceeds From Investing					
CAPX	\$ (3,776)	\$ (8,826)	\$ (4,443)	\$ (3,685)	\$ (20,730)
Proceeds From Sale of Assets	8,000	-	-	-	8,000
Total Investing Cash Flow	\$ 4,224	\$ (8,826)	\$ (4,443)	\$ (3,685)	\$ (12,730)
Proceeds From Financing					
Total From Financing	\$ (5,743)	\$ (33,488)	\$ (7,642)	\$ -	\$ (46,873)
Net Cash Flow	\$ (0)	\$ -	\$ 15,354	\$ 14,779	\$ 30,132
Cash Beginning	\$ 3,650	\$ 3,650	3650	19,004	
Cash Ending	\$ 3,650	\$ 3,650	\$ 19,004	\$ 33,782	

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Ormet Corporation
Will not be updated
Confidential

Ormet Corporation Proforma Balance Sheet Forecast \$(000)					
	April 30, 2009	June 30, 2009	September 30, 2009	December 31, 2009	
Assets					
Total current assets	\$ 107,617	\$ 90,462	\$ 97,261	\$ 112,541	
Total Fixed Assets	107,457	111,691	111,356	110,015	
TOTAL ASSETS	\$ 215,073	\$ 202,153	\$ 208,617	\$ 222,556	
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current Liabilities:					
Revolving debt	\$ 41,130	\$ 7,642	\$ -	\$ -	
Other Current Liabilities	42,437	57,178	61,102	66,034	
Total current liabilities	\$ 83,567	\$ 64,820	\$ 61,102	\$ 66,034	
Long Term Debt	\$ 47,663	\$ 49,503	\$ 51,399	\$ 53,329	
Pension obligations	141,690	135,715	127,112	121,137	
Post retirement obligations (VEBA)	56,273	55,145	54,017	49,445	
Other liabilities	5,195	7,620	8,045	8,470	
TOTAL LIABILITIES	\$ 334,387	\$ 312,803	\$ 301,675	\$ 298,415	
TOTAL STOCKHOLDERS' EQUITY	\$ (119,314)	\$ (110,650)	\$ (93,057)	\$ (75,859)	
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 215,073	\$ 202,153	\$ 208,617	\$ 222,556	

In connection with the submittal of this exhibit in support of Ormet's case; the projected financial information contained herein was prepared using the best information in February 2009. They will not be updated on an on-going basis. The projections reflect numerous assumptions concerning Ormet's future performance and with respect to prevailing and anticipated market and economic conditions which are beyond our control and which may not materialize. Actual results may vary significantly from those contemplated in the projections. For example, the impact of the current arbitration with Ormet's sole customer, Glencore.



Borrowing Base Certificate

Company Name: Ormet Corporation	Date: 4/30/2009	Certificate Number: 345
1. ACCOUNTS RECEIVABLE, beginning balance		
MANUFACTURING ACCOUNTS RECEIVABLES	12,425,504.16	
ALUMINUM ACCOUNTS RECEIVABLES	0.00	
TERMINAL ACCOUNTS RECEIVABLES	150,175.00	
TOTAL ACCOUNTS RECEIVABLES	\$ 12,575,679.16	
2. Additions to Accounts Receivable since last BBC		
(A) Third Party New Sales Detail		
MANUFACTURING ACCOUNTS RECEIVABLES (4-22A thru 4-20A)	\$ 10,763,919.79	
ALUMINUM ACCOUNTS RECEIVABLES	\$ -	
TERMINAL ACCOUNTS RECEIVABLES	\$ -	
TOTAL THIRD PARTY SALES	\$ 10,763,919.79	
(B) Other Additions		
\$ -		
(C) TOTAL ADDITIONS	\$ 10,763,919.79	
3. Reductions to Accounts Receivable since last BBC		
(A) Cash Collections Detail		
MANUFACTURING ACCOUNTS RECEIVABLES (4-22A thru 4-20A)	\$ 11,330,453.06	
ALUMINUM ACCOUNTS RECEIVABLES	\$ -	
TERMINAL ACCOUNTS RECEIVABLES	\$ -	
TOTAL CASH RECEIVED	\$ 11,330,453.06	
(B) Discounts Issued since last BBC	\$ (52.38)	
(C) Credit Memo since last BBC (4-22A thru 4-20A)	\$ 811,181.17	
(D) Other Reductions since last BBC (see Reason tab)	\$ -	
(E) TOTAL REDUCTIONS	\$ 12,191,685.61	
4. Other Adjustments to Accounts Receivable (see AR tab)	\$ 124,979.19	
5. NEW ACCOUNTS RECEIVABLE BALANCE (Total of Lines 1, 2C, 3E, and 4)	\$ 10,266,973.25	
6. Total Ineligible Accounts	\$ 777,853.22	
7. ELIGIBLE ACCOUNTS RECEIVABLES (Line 5 minus Line 6)	\$ 9,489,119.93	
8. ACCOUNTS RECEIVABLES AVAILABILITY (85% of Line 7)	\$ 8,065,756.18	
9. INVENTORY AVAILABILITY	\$ 11,000,000.00	
10. FIXED ASSETS TERM LOAN AVAILABILITY - Capped at \$15 million	\$ 15,000,000.00	
11. BURNING LAND SALE RESERVE	\$ 12,000,000.00	
12. Supplemental LC Availability - Capped at \$40 million	\$ 40,000,000.00	
13. TOTAL GROSS AVAILABILITY (Total of Lines 8, 9 and 10)	\$ 80,065,756.18	
14. NET AVAILABILITY (Less of \$15 Million plus \$50 Million)	\$ 65,065,756.18	
15. Loan Availability Block/Reserve (A)	\$ -	
16. NEW AVAILABILITY (Line 14)	\$ 65,065,756.18	
17. BEGINNING LOAN BALANCE, 04/28/09	\$ 9,917,650.00	
18. (New Borrowing requested)	\$ 9,543,125.96	
19. Loan A/R with interest and principal repaid since last BBC		
(A) TOTAL CASH REMITTED (check net collection funds)	\$ (11,331,453.06)	
20. Other Adjustments and New A/R cash applied to loan		
(a) Adjust previous loan balance for increase in LC (Previous + LC's should = \$15M)	(12,000,000.00)	
(b) Adjust balance between loans for charges	\$ (100,000.00)	
(c) Preclude from rate of loan	\$ -	
21. New Loan Balance	\$ 9,776,252.33	
22. Total LCs Outstanding balance	\$ 3,000,000.00	
23. 04/28/09 borrowing to be wired back on 05/31/09	\$ -	
24. EXCESS AVAILABILITY (Line 16 minus Line 21)	\$ 55,289,503.85	
Explain:		

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Prepared by:

Brenda Juech
5-6-09

Authorized Signatures:

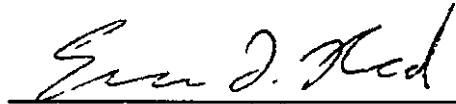
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CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and correct copy of the foregoing Motion and Memorandum in Support has been served upon the below-named persons via regular U.S. Mail Service, postage prepaid, this 29th day of May, 2009.



Emma F. Hand
Attorney for Ormet Primary Aluminum Corporation

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