

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

PUCO

RECEIVED-DOCKETING DIV 2009 JUN -1 AM 9:32

SUPPLEMENTAL 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.

This is to certify that the images appearing are an accurate and complete reproduction of a case file document delivered in the regular course of business Technician [Signature] Date Processed 6/1/09

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 [REDACTED] 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 [REDACTED]

24 [REDACTED] As a result, Ormet's ability to either refinance or retire debt is equal to

[REDACTED] As shown on line 1, Ormet will be required to retire or refinance the [REDACTED]

1 [REDACTED] 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 \$ [REDACTED] 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 \$ [REDACTED] 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 [REDACTED] 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 [REDACTED] 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. [REDACTED]

20 [REDACTED]

21 [REDACTED]

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 [REDACTED] at the end of 2009. That debt is due November

1 2010 and must be refinanced as part of a holistic refinancing, because Ormet will not be
2 able to put a bank agreement in place in February 2010 that would allow the payment of
3 junior debts later in the year. In order that Ormet would obtain a clean opinion from our
4 auditors for 2009 and to achieve a successful refinancing of its bank debt, it will need to
5 do one blanket refinancing in early 2010.

6 **Q. PLEASE DESCRIBE EXHIBIT ORM-16.**

7 A. Exhibit ORM-16 is a Wachovia Borrowing Base Certificate for Ormet Corporation,
8 which shows the financing available to Ormet as of April 30, 2009. [REDACTED]

9 [REDACTED]
10 [REDACTED]
11 [REDACTED]
12 [REDACTED]
13 [REDACTED]
14 [REDACTED]

15 **Q. WHAT IS THE SIGNIFICANCE OF THESE EXHIBITS?**

16 A. Taken together, these exhibits demonstrate that an electricity price of \$38/MWh, along
17 with the forecast assumptions described above, would produce enough cash flow to
18 enable Ormet to refinance its long term debt in 2009. As I've already noted, that forecast
19 appears to be somewhat overstated based on actual reduced production levels and the fact
20 that [REDACTED]

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

23 A. In this scenario, we are proposing to maintain employment at a minimum of 900
24 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 [REDACTED] 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.

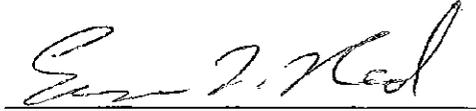
21 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

22 A. Yes it does.

**EXHIBIT REDACTED --
CONFIDENTIAL TRADE SECRET
INFORMATION**

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

SERVICE LIST

Marvin Resnik, Counsel of Record
Steven T. Nourse
American Electric Power Corporation
1 Riverside Plaza
Columbus, OH 43215

David F. Boehm
Michael Kurtz
Boehm, Kurtz & Lowry
36 East Seventh Street, Suite 1510
Cincinnati, OH 45202

Samuel C. Randazzo, Counsel of Record
Lisa McAlister
Joseph M. Clark
McNees Wallace & Nurick LLC
21 East State Street, 17th Floor
Columbus, OH 43215-4228

John W. Bentine
Mark S. Yurick
Matthew S. White
Chester Wilcox & Saxbe LLP
65 East State Street, Suite 1000
Columbus, OH 43215

Maureen Grady
Gregory Poulos
Ohio Consumers' Counsel
10 West Broad Street, Suite 1800
Columbus, OH 43215

Jennifer Duffer,
Armstrong & Okey, Inc.
222 East Town Street 2nd Floor
Columbus OH 43215

Duane Luckey
Attorney General's Office
180 E. Broad Street, 9th Floor
Columbus, OH 43215