



October 19, 2012

Public Utilities Commission of Ohio  
Docketing Division  
180 East Broad Street  
Columbus, Ohio 43215-3793  
Fax: (614)-466-0313

**Case No.:**  
09-119-EL-AEC

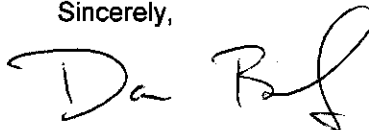
Re: Affidavit in Support of Motion for Expedited Approval of Payment Deferral  
Case Nos. 09-119-EL-AEC

Dear Sir or Madam:

Please find enclosed for filing the Affidavit of James Burns Riley in support of Ormet's Motion for Expedited Approval of Payment Deferral. The Commission granted the Motion on October 17, 2012 and ordered that the enclosed Affidavit be filed by October 19, 2012.

Additional copies are being served on all parties on the service list below.

Sincerely,



Dan Barnowski

cc:

David F. Boehm, Esq.  
Michael L. Kurtz, Esq.  
BOEHM, KURTZ & LOWRY  
36 East Seventh Street, Suite 1510  
Cincinnati, Ohio 45202  
Ph: (513) 421-2255  
Fax: (513) 421-2764  
dboehm@BKLawfirm.com  
mkurtz@BKLawfirm.com  
Attorneys for The Ohio Energy Group

Mark S. Yurick, Esq.  
Taft Stettinius & Hollister LLP  
65 East State Street, Suite 1000  
Columbus, Ohio 43215-4213  
myurick@taftlaw.com  
Phone: (614) 221-2838  
Fax: (614) 221-2007  
Attorney for The Kroger Company

<p>Samuel C. Randazzo MCNEES WALLACE &amp; NURICK LLC 21 East State Street, 17th Floor Columbus, OH 43215-4228 Telephone: (614)469-8000 Telecopier: (614)469-4653 sam@mwncmh.com Attorneys for Industrial Energy Users-Ohio</p>	<p>Maureen O'Grady Office of the Ohio Consumers' Counsel 10 West Broad Street, Suite 1800 Columbus, OH 43215-3485 (614)466-8574 poulos@occ.state.oh.us</p>
<p>Steven T. Nourse American Electric Power Service Corporation 1 Riverside Plaza, 29th Floor Columbus, OH 43215 Tel: (614) 716-1606 Email: stnourse@aep.com Attorney for Columbus Southern Power Company and Ohio Power Company</p>	

**BEFORE THE  
PUBLIC UTILITIES COMMISSION OF OHIO**

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

**AFFIDAVIT OF JAMES BURNS RILEY**

Hannibal,                 :         ss  
Ohio                         :

James Burns Riley, being duly sworn, deposes and states:

1.       I am the Chief Financial Officer of Ormet Corporation ("Ormet Corp."), which is the parent corporation of Ormet Primary Aluminum Corporation ("Ormet"). I have held this position with Ormet Corp. since July 1, 2007. My responsibilities include the oversight of all financial and IT functions. My business address is 43840 State Route 7, P.O. Box 176, Hannibal, OH 43931.

2.       Ormet owns and operates an aluminum reduction facility in Hannibal, Ohio (the "Hannibal Facility"). The Hannibal Facility, encompassing 256 acres, is located on the Ohio River in Hannibal, Ohio. It consists of six potlines and is the second largest aluminum smelter in the United States, with the capability of producing approximately 271,000 metric tons of molten aluminum annually.

3.       When Ormet's aluminum reduction facility is operating at capacity, Ormet employs approximately 1,000 employees in Hannibal Ohio, with wages totaling approximately \$61 million per year. Ormet covers approximately 7,100 of its workers', retirees', and family members' health care, at a cost of more than \$23 million per year. Ormet also pays

approximately \$375,000 annually in local taxes and supports an additional approximately 2,000 jobs indirectly. According to a report written by Professor Paul Coomes, Ormet's total impact on the regional economy is approximately \$238 million per year.

4. When fully operational, the aluminum reduction facility utilizes up to 540 MW of electricity 24 hours per day, 365 days per year. Electricity is a raw material in the aluminum industry. When reasonably priced electricity is available, it constitutes approximately 30-35 percent of the cost of producing aluminum. However, when electric rates are higher, the cost of electricity can exceed 35% of the cost of producing aluminum, at which point aluminum reduction facilities cannot be economically operated and may be forced to shut down.

5. The selling price of basic aluminum has two components. The majority of the price is set by the global supply and demand, and is set by prices published on the London Metal Exchange ("LME") historically representing approximately 93 percent of the total price. The other approximately 7 percent of the price is determined by the Mid West Premium which represents a premium for aluminum sourced in our region. Currently, the Mid West Premium represents 10% of the total price as there are short-term shortages in our region and the relatively low LME price. Ormet's ability to continue operations is therefore determined by its cash cost of production because Ormet cannot positively influence global or regional prices.

6. Power costs are the most significant determinant of the viability of a smelter. If Ormet is to keep the Hannibal Facility in operation, it must be able to procure electricity at a price that will enable it to have cash costs lower than market prices.

7. Ormet's power supply also must be stable. Ormet operates at about a 98.5 percent load factor around the clock. Electricity is a raw material for the production of aluminum. The

six potlines Ormet operates at its Hannibal Facility must be kept energized at all times to keep the metal in them molten. If electricity to the potline is reduced sufficiently that the metal solidifies, it takes several months and millions of dollars to bring the potline back into operation.

8. To help keep its Hannibal Facility operational, on or around September 15, 2009, Ormet and AEP Ohio executed a unique arrangement (“2009 Power Agreement”), which was approved by the Public Utilities Commission of Ohio (the “Commission”). Pursuant to the 2009 Power Agreement, AEP Ohio agreed to supply Ormet, and Ormet agreed to purchase from AEP, the electricity necessary to meet Ormet’s needs.

9. Pursuant to the 2009 Power Agreement, Ormet received discounts off the AEP Ohio Tariff Rate for the electricity it purchased. However, it is important to note that the discounts were calculated off the AEP Ohio Tariff Rate. Thus, if the AEP Ohio Tariff Rate increases, while Ormet still is eligible to receive a discount, its rate increases dollar-for-dollar with any Ohio Tariff Rate increase.

10. On or about August 8, 2012, the Commission approved, with modifications, AEP Ohio’s Application for approval of its Electric Security Plan (“ESP II”).<sup>1</sup> This decision has increased Ormet’s electricity bill by approximately \$20 million per year, based on the operation of six pot lines, commencing with Ormet’s September 2012 bill, which is due in October. Ormet saw its price increase from \$52.44/MWh in August to \$57.09/MWh in September, or an increase of 8.9%.

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<sup>1</sup> *In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Authority to Establish a Standard Service Offer Pursuant to Section 4928.143, Revised Code, in the Form of an Electric Security Plan*, Case Nos. 11-346-EL-SSO, *et al.*, Opinion and Order (Aug. 8, 2012).

11. Due to the depressed aluminum prices, Ormet has exhausted its 2012 rate discount, which was intended to cover the entire 2012 calendar year, within the first eight (8) months of the year. Ormet's outstanding debt obligations, along with the depressed aluminum prices and increased electric rates, have created a significant strain on Ormet's operations and an immediate cash flow problem for Ormet. Ormet has already been forced to reduce its operation to four pot lines because of these factors.

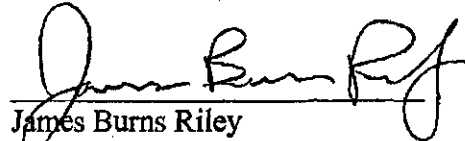
12. Ormet has made several changes to its business processes in an effort to continue operations of the Hannibal Facility, including reducing its costs due to energy efficiency initiatives. But even with these cost reductions, continued operations will be extremely difficult.

12. Unfortunately, although the 2009 Power Agreement has been a huge success until recently, and has accomplished exactly what was intended (enabling Ormet to restart all of its potlines and rehire approximately 160 employees in order to maintain a workforce of 1030), these factors have mitigated all of the benefits that were created by the 2009 Power Agreement.

13. In order to continue its operation of the Hannibal Facility, Ormet requires a short-term deferral of its October and November 2012 bill obligations (otherwise to be paid in November and December respectively), by which it would repay the bills in 2014 and 2015, via monthly payments that would constitute 1/17<sup>th</sup> of the total cumulative amount of the October and November 2012 bills.

14. The location of the Hannibal Facility, Monroe County Ohio, is an economically depressed region where Ormet's contributions as an employer, taxpayer and purchaser of goods and services is vital to the economy. The deferral contemplated herein is vital to protecting these Ohio jobs.

15. Ormet needs immediate relief to survive its immediate cash flow problems.



James Burns Riley  
Chief Financial Officer  
43840 State Route 7  
P.O. Box 176  
Hannibal, OH 43931

Sworn to and subscribed  
Before me

This 18 day of Oct, 2012

Candy L. Baker

Notary Public,

My Commission Expires: Nov 20, 2013



CANDY L. BAKER  
Notary Public, State Of Ohio  
My Commission Expires Nov. 20, 2013