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

DIRECT TESTIMONY OF MICHAEL F. TANCHUK

Q1. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, EMPLOYER AND CURRENT POSITION.

A1. My name is Mike Tanchuk. I am the President and Chief Executive Officer of Ormet Corporation ("Ormet"), 43840 State Road 7, P.O. Box 176, Hannibal, Ohio 43931, which is the parent corporation of a number of companies, including Ormet Primary Aluminum Corporation ("Ormet Primary"). I also serve as a member of Ormet's Board of Directors.

Q2. PLEASE DESCRIBE YOUR EXPERIENCE IN THE METALS INDUSTRY.

A2. I have more than thirty-six years of experience in the metals industry and have managed nine aluminum smelters in the United States and Iceland. After graduating from Bucknell University with a Bachelor's Degree in Civil Engineering in 1977, I began work at Inland Steel before joining Reynolds Metals Company in 1985 in Richmond, Virginia. I held a number of environmental management and superintendent positions at Reynolds' Headquarters and at its Massena, New York smelting operations. In 1998, I became the Plant Manager at Reynolds' Longview, Washington plant. Following the Alcoa/Reynolds merger in 2000, I became the Operations Manager at Alcoa's Massena, New York facilities, which included two smelters. In 2001, I became President of the Northwest Region of Alcoa's Primary Business Unit, Alcoa Primary Metals. I served as

1 Vice President and Plant Manager of Century Aluminum of Kentucky for three years. I
2 then became Vice President and Managing Director of Nordural, a division of Century
3 Aluminum in Grundartangi, Iceland for one year before coming to Ormet.
4 At each of the aluminum smelting plants listed above, I was directly involved in the
5 development of each operation's power supply agreements.
6 **Q3. HOW LONG HAVE YOU BEEN ASSOCIATED WITH ORMET?**
7 A3. I joined Ormet as President and CEO on May 1, 2007 and became a Director in May
8 2007.
9 **Q4. WHAT IS ORMET PRIMARY'S BUSINESS?**
10 A4. Ormet Primary owns and operates an aluminum reduction facility (or aluminum smelter)
11 in Hannibal, Ohio.
12 **Q5. PLEASE DESCRIBE THE HANNIBAL FACILITY.**
13 A5. The Hannibal facility, encompassing 256 acres, is located on the Ohio River in Hannibal,
14 Ohio. It consists of six potlines, and when all six are in operation, it is among the largest
15 aluminum smelters in the United States, with the capability of producing approximately
16 263,000 metric tons of molten aluminum annually.
17 **Q6. HOW IS THE ECONOMIC VIABILITY OF AN ALUMINUM SMELTER**
18 **DETERMINED?**
19 A6. Economic viability of an aluminum smelter is essentially determined by the relationship
20 between the retail market price of an aluminum smelter's product, aluminum, and its
21 costs, chiefly the cost of electricity.
22 **Q7. WHAT ARE THE PRINCIPAL OPERATING COSTS OF ORMET'S**
23 **ALUMINUM SMELTER IN HANNIBAL, OHIO?**

A7. One of the largest principal costs for the production of aluminum products is electricity. When fully operational, the Hannibal aluminum reduction facility utilizes up to 540 MW of electricity 24 hours per day, 365 days per year. Electricity is a fundamental raw material in the aluminum industry. Electricity also constitutes the most significant element of smelter costs. The current estimated cost of delivered power to smelters in North America is $27.9/MWh. Recently, there has been a worldwide trend of reduced power costs to smelters due the cyclical depression in metal prices. However, when electric rates are excessive, particularly when the retail price of aluminum is low, aluminum reduction facilities simply cannot operate. Unfortunately, this is the case in Ohio presently.

Q8. HOW IS THE RETAIL PRICE OF ALUMINUM DETERMINED?

A8. The selling price of basic aluminum is determined by global supply and demand, and is set by prices published on the London Metal Exchange ("LME"). Ormet has no ability to determine the selling price of its product. Ormet's ability to compete globally is therefore determined by its cost of production.

Q9. WHY IS IT IMPORTANT FOR ORMET TO HAVE STABLE ACCESS TO ELECTRICITY AT RATES AT WHICH IT CAN REMAIN COMPETITIVE?

A9. If Ormet is to keep its Hannibal Facilities in operation, it must be able to procure electricity at a price that will enable it to remain competitive. Ormet's power supply must be stable. Ormet operates at about a 98 percent load factor around the clock. Electricity is a vital raw material for the production of aluminum. The six potlines Ormet formerly operated at the Hannibal Facilities had to 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.

Q10. HAS ORMET REORGANIZED ITS OPERATIONS IN THE PAST?

A10. Yes. On January 30, 2004, Ormet filed for Chapter 11 Bankruptcy, along with its affiliates and parent company. Subsequently, due to a labor strike and increasing power costs, Ormet was forced to shut down its Hannibal Facilities. On December 15, 2004, the Bankruptcy Court approved Ormet's plan of reorganization, and Ormet emerged from bankruptcy in April 2005. Subsequently, Ormet was able to settle with its union and end the labor strike, however, Ormet could not immediately restart its Hannibal Facilities because the price of electricity that Ormet was able to obtain was too high relative to the price of aluminum. It was not until Ormet entered into a stipulation with AEP Ohio effective on January 1, 2007 that Ormet was able to obtain power at a cost low enough relative to the price of aluminum to return its Hannibal Facilities to full operation. That stipulation was scheduled to expire on December 31, 2008.

Q11. DID ORMET AND AEP OHIO ENTER INTO A SUBSEQUENT AGREEMENT FOR ELECTRIC POWER?

A11. Yes. At the conclusion of the stipulation term on December 31, 2008, Ormet and AEP Ohio entered into an Interim Agreement approved by the Commission on January 7, 2009 in Case Nos. 08-1338-EL-AAM and 08-1339-EL-UNC. This Interim Agreement provides for service from AEP Ohio to Ormet until the effective date the AEP Ohio's electric security plan and tariffs went into effect. On March 30, 2009, the Commission approved AEP Ohio revised tariffs with new rates and charges for electric service filed by AEP Ohio in connection with its electric security plan.

1 **Q12. IN 2008, DID ORMET AND AEP OHIO ENTER INTO NEGOTIATIONS FOR A**
2 **NEW UNIQUE ARRANGEMENT?**
3 A12. Yes.
4 **Q13. WHAT WAS THE OUTCOME OF THOSE NEGOTIATIONS?**
5 A13. In late 2008 and early 2009, Ormet negotiated a power agreement with AEP Ohio that
6 was the basis of the Unique Arrangement originally proposed in this proceeding. Under
7 the Unique Arrangement, for 2009, and based on the sale forward of its 2009 metal
8 production, Ormet would pay an all-in rate of the lesser of $38.00/MWh or the AEP Ohio
9 Tariff Rate. The proposed Unique Arrangement was designed to help Ormet bridge the
10 potentially turbulent economic situation over the next few years so that it could stay in
11 business in Ohio in the long term.
12 **Q14. WOULD YOU PLEASE DESCRIBE THE EXISTING UNIQUE ARRANGEMENT**
13 **BETWEEN ORMET AND AEP OHIO.**
14 A14. In its July 15, 2009 Opinion and Order and its September 15, 2009 Entry on Rehearing,
15 the Commission approved the Unique Arrangement. The Unique Arrangement was
16 designed to help keep Ormet's Hannibal Facility operational.
17 Pursuant to the Unique Arrangement, Ormet received discounts off the Ohio Power Tariff
18 Rate for its purchased electricity. The discounts were calculated off of the Ohio Power
19 Tariff Rate GS-4.[1] Thus, if the Tariff Rate increased, while Ormet would still receive a
20 discount, its rate would increase dollar-for-dollar with any Ohio Power Tariff Rate
21 increase. Moreover, the maximum discount has declined from $60 million per year in

[7] One half of the Ormet load was in the Ohio Power zone and one half in the Columbus Southern zone.

calendar years 2010 and 2011, to $54 million in calendar year 2012, and is scheduled to decline by $10 million per year thereafter.

Under the existing Unique Arrangement, Ormet may take discounts for each of the calendar years 2013-18 of some $44 million, $34 million, $24 million, $14 million, $4 million and $0, respectively. As of the close of the July billing cycle some $??? million in discounts remained.

The Ohio Power industrial rate which establishes the base rate for Ormet to procure power has increased from $39.66 per MWh when the Unique Arrangement was established in 2009 to $62.83/MWh in June 2013, an increase of some 58%. The Unique Arrangement was created as an incentive to maintain and create jobs, which Ormet has successfully done to date. In 2013 these rate increases will virtually eliminate the benefits provided by the Unique Arrangement.

At full operating levels, this increase in the GS-4 rate over just four years amounts to an increase of approximately $79 million per year for the Hannibal Facility.

Q15. WHAT HAS HAPPENED SINCE THE COMMISSION APPROVED THAT UNIQUE ARRANGEMENT ON JULY 15, 2009?

A15. Since the approval of the Unique Arrangement by the Commission, the combination of rising tariff rates and falling world market aluminum prices forced Ormet to file for bankruptcy under Chapter 11 of the Bankruptcy Code on February 25, 2013. Ormet has worked aggressively to develop and implement a plan to emerge from bankruptcy and to support continued and long-term operation of the Hannibal, Ohio Smelter. The Hannibal Facility has reduced its operating costs by approximately $30 million per year by improving power consumption, cell life and carbon usage. In addition, agreements

reached with the United Steel Workers Union and Wayzata Investment Partners, LLC ("Wayzata"), the term debt holder, will substantially reduce cash costs by approximately $278 million over the next five to seven years related to the elimination of contributions to defined benefit pensions, a reduction in contributions to the Voluntary Employee Benefit (VEBA) Trust which supports retiree health care costs and a reduction in long-term debt. Equally important, Ormet's major lender, Wayzata has made significant additional investments in Ormet to keep it a going concern including providing the liquidity during bankruptcy and having a Wayzata controlled acquisition company execute an asset purchase agreement ("APA") which would exchange a significant amount of debt for equity. The APA which was approved by the bankruptcy court on June 4, 2013, keeps Ormet a going concern. Closing of the APA and Ormet's emergence from bankruptcy, however, is conditioned on approval by the Public Utilities Commission of Ohio of modifications to the Unique Arrangement which provide for affordable power rates. The APA can be terminated by the Buyer if the closing has not occurred by August 14, 2013[2]. If the emergency relief is not approved and the transactions are not consummated, Wayzata is under no obligation to continue to provide the required liquidity to maintain operation. Thus, continued employment of in excess of 1000 direct employees at full operation, thousands of indirect employees and millions of dollars paid to local and state government will be lost if Ormet does not come out bankruptcy.

[2] Extensions may be requested of the August 14, 2013 deadline, but there is no requirement that an extension be granted, or granted for an amount of time beyond August 14, 2013 sufficient to conclude Commission proceedings. Further, the Buyer is not required to fund any additional monies until after the closing has occurred in the APA. So even if the deadline date was extended, Ormet's need for credit and liquidity to conduct business without additional funding from the Buyer would result in a closing of the Hannibal, Ohio facility in a matter of months.

In a Section 363 bankruptcy sale, the assets of the applicant are sold to the highest and otherwise best bidder. The APA represents the only offer for Ormet as a going concern. The Bankruptcy Court approved the sale on June 4, 2013 and found that the only buyer who made an offer after Ormet exposed the assets to the market was Smelter Acquisition LLC, a Wayzata controlled entity, and the only alternative to the sale is a shut down. If the sale of the assets as contemplated in the APA is not completed, Ormet will not be a going concern and the facility will be shut down. Therefore, it is necessary to modify the existing Unique Arrangement to permit the emerging company to be economically viable. If the Ormet facility is shut down the effect would be to nullify the existing Unique Arrangement, including the payback of the deferrals, loss of the Collective Bargaining Agreement and elimination of all employment at Ormet.

The APA provides that the Buyer will assume the collective bargaining agreement. When both the emergency and non-emergency relief is granted the Buyer will not only be able to maintain the current minimum employment obligation of 650 full time employees, but also when the two incremental pot lines are returned to service employment would expand to 1,000 full time employees.

Q16. WHAT IS ORMET REQUESTING BY VIRTUE OF ITS JUNE 14, 2013 MOTION TO AMEND?

A16. In order to achieve the goals of permitting Ormet to emerge from bankruptcy and to have access to additional funding, to obtain affordable power until Ormet can complete construction of its gas-fired generating plant scheduled for operation in 2015, and to expand operations back to full capacity which supports more than 1,000 direct jobs, the proposed modifications to the existing Unique Arrangement consists of the following

1 Emergency and Non-Emergency provisions that 1.)maintain the current viability of
2 Ormet and allow it to emerge from bankruptcy, 2.) provide certainty of power costs for
3 2013 through 2015, 3.) allow for the ramp up of the plant to full operation by 2015 and
4 get to full employment and 4.) transitions Ormet to be self sufficient with a competitive
5 power rate long term.

6 **Q17. WHO WILL BE EXPLAINING THE SPECIFICS AND RATIONALE FOR THE**
7 **REQUESTED RELIEF CONTAINED IN THE JUNE 14, 2013 MOTION TO**
8 **AMEND?**

9 A17. Henry W. Fayne will be the witness who addresses the specific requests, rationale and
10 reasons for the requested relief.

11 **Q18. PLEASE DESCRIBE THE ECONOMIC IMPACT OF THE HANNIBAL**
12 **FACILITY.**

13 A18. When Ormet's aluminum reduction facility is fully operating, Ormet has approximately
14 1,000 employees with wages totaling approximately $56,000,000 per year. Ormet covers
15 health care costs for approximately 7,000 of its workers, retirees and their family
16 members at a cost of over $16,000,000 per year. Ormet pays approximately $300,000
17 annually in taxes to Monroe County and its School District. Ormet also purchases
18 approximately $15,000,000 to $20,000,000 per year in goods and services in the Ohio
19 Valley.

20 It is estimated that the total net annual impact of Ormet on the region is 3,117 jobs and
21 $238 million total employee compensation. The continued operation of the Hannibal
22 Facility is vital to not only Monroe County but also the State of Ohio. I ask the

1 Commission to consider this in its decision on our motion to amend the Unique
2 Arrangement.

3 **Q19. WHO WILL DETAIL THE ESTIMATED IPMACT OF ORMET ON THE**
4 **REGION?**

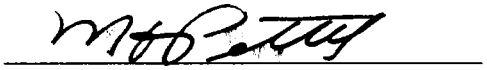
5 A19. Dr. Paul Coomes will testify of the economic impact study that he has prepared.

6 **Q20. DOES THIS CONCLUDE YOUR TESTIMONY?**

7 A20. Yes, but I reserve the right to submit rebuttal testimony.

CERTIFICATE OF SERVICE

The undersigned certifies that a copy of the foregoing document has been served upon the persons below via electronic mail this 6th day of August, 2013.



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Summary: Testimony Direct Testimony of Michael F. Tanchuk electronically filed by M HOWARD PETRICOFF on behalf of Ormet Primary Aluminum Corporation