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 JAMES BURNS RILEY

Q1. Please state your name, title and place of business.

A1. My name is James Burns Riley. 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 information technology ("IT") functions. My business address is 43840 State Route 7, P.O. Box 176, Hannibal, OH 43931.

Q2. What is the purpose of your testimony?

A2. I am testifying to explain Ormet's current financial situation and explain the impact of the proposed Motion to Amend the Unique Arrangement upon Ormet.

Q3. Please describe the facility Ormet has in Hannibal, Ohio.

A3. Ormet owns and operates an aluminum reduction facility encompassing 256 acres, which is located on the Ohio River in Hannibal, Ohio (the "Hannibal Facility") in Monroe County. It consists of six pot lines (in the very near future only two of which will be operating) 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. When Ormet's aluminum reduction facility is operating at capacity, Ormet employs approximately 1,000 employees in Hannibal Ohio, with wages totaling approximately

$66 million per year. Ormet provides health care benefits for its Hannibal employees and families which contribute another $15 million annually into the region. Ormet also pays approximately $1.6 million annually in local taxes and state taxes. According to a report written by Professor Paul Coomes, Ormet's total impact on the regional economy is approximately $238 million per year and indirect employment attributed to Ormet is 2,000 jobs.

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. Electricity is one of the largest cost components in making a tonne of aluminum and constitutes approximately 30-35 percent of the cost. However, a combination of low selling prices and high electric rates have put us at the point where the aluminum reduction facilities cannot be economically operated and may be forced to shut down.

Q4. Is Ormet an electrical customer of the Ohio Power Company?

A4. Yes. I believe in the last few years Ormet has been the largest and most energy-intensive customer on the Ohio Power Company system.

Q5. What is the current unemployment rate in Monroe County?

A5. According to the Ohio Department of Jobs and Family Services in June of 2013 (the latest month available) the unemployment rate in Monroe County, Ohio where the Hannibal Facility is located was 10.4 percent compared to the statewide average of 7.5 percent or the 7th highest out of 88 counties. Monroe County is an economically depressed area. As a major employer in Monroe County, should Ormet close the Hannibal Facility, the unemployment rate would be expected to rise significantly.

Q6. Does Ormet have a special arrangement with Ohio Power?

A6. Yes. To help keep its Hannibal Facility operational, on July 15, 2009 the Public Utilities Commission of Ohio (the "Commission") approved a unique arrangement between Ohio Power and Ormet. In accordance with that Unique Arrangement, on or around September 16, 2009, Ormet and AEP Ohio executed written terms and conditions to implement the unique arrangement which were filed with the Public Utilities Commission of Ohio. Pursuant to the Unique Arrangement, AEP Ohio agreed to supply Ormet, and Ormet agreed to purchase from AEP, the electricity necessary to meet Ormet's needs. The Unique Arrangement was designed to help keep Ormet's Hannibal Facility operational.

Pursuant to the Unique Arrangement, Ormet received discounts off the Ohio Power Tariff Rate for the electricity it purchased. The discounts were calculated off of the Ohio Power Tariff Rate GS-4.[1] Thus, if the base Tariff Rate increased or any of the riders associated with the Tariff Rate, while Ormet would still receive a discount, its rate would increase dollar-for-dollar with all increases in the total Ohio Power Tariff Rate.

The maximum discount has declined from $60 million in calendar years 2010 and 2011, to $44 million in calendar year 2013, and is scheduled to decline by $10 million per year thereafter irrespective of the rising electrical rates.

The Unique Arrangement is scheduled to expire by its own terms on December 31, 2018 in accordance with the terms of the Commission's Opinion and Order.

Under the existing Unique Arrangement, Ormet was eligible for discounts for each of the calendar years 2013 to 2018 of some $44 million, $34 million, $24 million, $14 million, $4 million and $0, respectively if certain LME prices were not achieved.

[1] A 50/50 blend of Ohio Power Columbus Southern zone and Ohio Power zone rates.

As of the close of the July, 2013 billing cycle $81.5 million in discounts remained.

Q7. Why does Ormet need a special arrangement for electric service from Ohio Power?

A7. Aluminum smelters are not ordinary electricity customers. An aluminum smelter's consumption of power does not change with the seasons such as space heating and cooling load, nor is it tied to normal business hours. Aluminum smelters consume power more or less uniformly twenty four hours a day, seven days a week, and 365 days a year. Thus, even industrial tariff rates such as Ohio Power's GS-4 do not match the load factors of aluminum smelters and thus do not capture the true cost of service for such constant load facilities. The unique load factor of the Hannibal, Ohio facility was part of the basis for the Unique Arrangement which designed rates pursuant to Ohio Administrative Code Section 4901:1-38-05.

Ormet cannot simply shut down the electricity to its pot lines and then turn the electricity back on, to take advantage of interruptible power rates. That is because the pot lines must be kept energized at all times to keep the metal in them molten. If electricity to a pot line is interrupted or reduced sufficiently so that the metal solidifies, it can take several months and millions of dollars to bring the pot line back into operation. Any reduction of electricity to a pot line can only be undertaken after a significant amount of planning and economic analysis, and would only be cost-effective under extreme circumstances.

Currently, the Ormet facility is in the process of reducing the operating pot lines from four pot lines to two potlines due to the combination of lower world prices for aluminum and the increase in the GS-4 Tariff rate.

Q8. What has caused Ormet to file its June 14, 2013 Motion to Amend the Unique Arrangement?

A8. In 2009 the GS-4 Tariff Rate for power to Ormet including all riders and before the discounts were applied was $39.66 per MWh. Ohio Power was granted additional rate relief in its ESP II case in August of 2012 in Case No. 11-346-EL-SSO. That same rate increased to an average of $57.99 per MWh by the first quarter of 2013, an increase of approximately forty-six percent (46%) in just a four year period. 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.

The current Unique Arrangement as per the Commission Opinion and Order provides that if the target price of aluminum of the London Metal Exchange exceeds the trigger amount that Ormet will pay a premium of 4% of the applicable GS-4 rate in addition to the rates established in the Unique Arrangement. Further, if the price of aluminum on the London Metal Exchange exceeds the trigger price by $300 a metric ton, then the premium Ormet will pay shall be 8% of the applicable GS-4 rate. All premiums are paid to AEP Ohio, who in accordance with the Commission's Opinion and Order apply them to the economic development accounts and thus reduce the amount retail customers pay under the economic development rider. As part of the amendments to the Unique Arrangement which Ormet seeks, Ormet is willing to reduce the trigger price for the payment of premiums to $2650/metric ton for 2013 and $2490/metric ton for 2014 and the first five months of 2015, from the current 2013 target price of $2805/metric ton. Looking at 2014 and 2015 while Ormet cannot guarantee that these lower trigger prices will result in the payment of premiums, Ormet can state that the lower trigger prices will increase the likelihood that premiums will be assessed against Ormet and paid back to the economic development funds.

The increase in the economic development rider payments by AEP Ohio customers for Ormet's requested emergency relief has been estimated by AEP to only be $3.5 million. That estimate is based upon freezing the generation cost per MWh of power to Ormet throughout 2013 at the first quarter price of $45.89 per MWh. The other four requested emergency relief items: 1) terminating the Unique Arrangement three years early; 2) advancement of the previously authorized economic development discounts by three years; 3) lifting of the prohibition of shopping and 4) the requested affirmation by the Commission of the assignment by Ormet of its interest in the Amended Unique Arrangement to Smelter Acquisition, LLC under Section 13.04 of the current arrangement should have no effect on the economic development rider obligation of retail customers of AEP Ohio in the aggregate.

Q9. Has Ormet exhausted all other means of reducing its non-energy operating costs?

A9. Yes. The Hannibal Facility has reduced its non-energy operating costs by approximately $30 million a year over its historical best performance by improving power consumption, cell life carbon usage and other non-capital improvements. Further, agreements reached with the United Steel Workers union and debt holders will reduce cash costs by approximately $278 million over the next five to seven years related to the elimination of contributions to the two largest defined benefit pensions an 89% reduction in contributions to the VEBA Trust which supports Hannibal hourly retiree health care costs and a 53% reduction in long term debt.

Q10. Is Ohio the only jurisdiction to provide special rates for aluminum smelters?

A10. No, other state commissions have provided special rates for aluminum smelters. For example, the New York Power Authority Trustees approved a thirty-year power supply contract with Alcoa, an aluminum smelter, to ensure the maintenance of New York jobs.

In addition, the Bonneville Power Administration has signed a power sales agreement with Alcoa, Inc. to provide power service to Alcoa's Intalco Plant in Ferndale, Washington.

Q11. What relief is Ormet seeking in this case?

A11. In order to achieve the goals of permitting Ormet to emerge from bankruptcy, 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 provisions:

Emergency Relief

a. Amendment to the Term of the Unique Arrangement:

Shorten the term of the Unique Arrangement from December 31, 2018 to December 31, 2015.

b. Amendment to the rate charged Ormet for power to support its current four line operation for the year 2013:

Commencing with approval of this motion, Ormet, in lieu of paying the AEP Ohio rate GS-4 (all riders including the Fuel Adjustment clause) minus discounts, shall pay a fixed rate per MWh for the balance of calendar year 2013 that will result in an average fixed fee of $45.89/per MWh for the entire calendar year 2013 plus payment of Riders PIRR, RSR, TURR, TCRR, ESRR, USF, DIR, EE/PDR, EDR, GridSMART, DARR and the tariff distribution fees excluding the discounts. In order to achieve an average fixed fee of $45.89 per MWh for the entire calendar year of 2013, the fixed rate per MWh paid during the second portion of 2013 may be less than $45.89 per MWh to offset higher payments earlier in the year before discounts are applied.

c. Amendment to permit Ormet to purchase power at market rates to support its current four line operations as of January 1, 2014:

Effective January 1, 2014, in accordance with existing policy, Ormet shall be permitted to transition to choice and purchase up to its full power requirement for the four pot lines from a competitive retail electric service provider at market rates pursuant to the Commission's rules governing retail power purchases.

d. Amendment to the discount applicable to Ormet to support its current four line operation:

Maintain the current monthly average discount of five million five hundred thousand per month in calendar year 2013 including if necessary adjustments so that for calendar year 2013 the monthly discounts do not exceed or fall below sixty six million dollars for the calendar year. For the period of calendar year 2014, Ormet's monthly discount shall be reduced to four million five hundred thousand dollars per month.

e. The affirmation of the assignment of the Unique Arrangement:

The Commission is requested to affirm the assignment by Ormet of its interest in the Amended Unique Arrangement to Smelter Acquisition LLC under Section 13.04 of the current arrangement.

Non-Emergency Relief

a. Amendment to the discount applicable to Ormet to support its current four line operation:

For the first five months of 2015, Ormet shall continue to receive a monthly discount of four million five hundred thousand dollars.

b. Amendment to provide for incremental power purchases by Ormet:

Permit Ormet to reopen the remaining two pot lines, which is anticipated to be no earlier than July 1, 2014 and not to exceed 160 MW of capacity. Should Ormet elect to reopen one or both of the idled pot lines, Ormet shall be permitted to purchase up to its full power requirement for the incremental pot lines from a competitive retail electric service provider at market rates. To support the operations of the incremental lines, Ormet will increase its minimum employment to 1,000 once the two incremental pot lines are fully restarted. Ormet shall receive a shopping credit of $9/MWh through May 31, 2015 on the additional 160 MW.

c. Amendment clarifying repayment of the deferral:

Ormet shall repay the amount billed to Ormet for October and November 2012 which was deferred starting January 2014 and continuing through December 2015. Payment shall be in equal monthly installments equal to 1/24th (or 4.1667%) of the cumulative amount of those two deferred invoices.

d. Amendment to the target price for the payment of premiums by Ormet:

The target price for aluminum based on the London Metals Exchange which would trigger a premium payment by Ormet shall be lowered to the target prices of $2650/metric ton for 2013 and $2490/metric ton for 2014 and the first five months of 2015, from the current 2013 target price of $2805/metric ton.

e. Amendment to provide that Ormet will demonstrate sustainable power pricing after 2015:

Ormet shall submit to the Commission a business plan which demonstrates a sustainable energy price post 2015 from a newly constructed on site power plant which achieves power prices per MWh which will support the ongoing operation of Hannibal Facility. The plan will be submitted under seal to the Commission no later than 30 days following the filing of the Application.

f. Amendment to provide for Ormet to submit a detailed construction plan:

As soon as practical following the filing of the business plan, Ormet shall provide the Commission with more detailed information, including specific milestones, for construction of the power plant including pricing projections which confirm that Ormet's power prices will be sustainable without further incentives.

g. Amendment to provide for backup power for up to a seven month delay in the construction of an Ormet power plant:

Due to weather, regulatory, financial or other factors outside the control of Ormet, the proposed power plant may not be in full operation on May 31, 2015. If construction of the power plant extends past June 1, 2015, Ormet shall be permitted to purchase up to its full 540 MW power requirement from a competitive retail electric service provider at market rates. To bridge the gap between June 1, 2015 and December 31, 2015, Ormet shall receive a shopping credit of $6/MWh. Such shopping credit shall terminate the earlier of when the Ormet generation plant is placed into full service or December 31, 2015.

These modifications to the Unique Arrangement are necessary if Ormet is to emerge from bankruptcy and continue operation of its Hannibal Facility.

Q12. Who benefits if the Commission grants the requested relief?

A12. The benefit to the community of Ormet receiving the Emergency Relief is that it will permit Ormet to emerge from bankruptcy as a going concern. As a going concern, Ormet will be able to maintain a reduced level of operations that will help facilitate bringing all of the lines back and the resultant increase in employment when the price returns, maintain the payment of property and other local taxes, and preserve the opportunity for the economic multiplier effect of Ormet on the local economy as documented in Exhibit A to the June 14, 2013 Motion.

Ormet has also requested seven non-emergency amendments. The benefits of these seven items are that they will make Ormet viable in the long run by permitting Ormet in 2014 to reopen pot lines which had been shut down due to the combination of high power prices under the Unique Arrangement and low world metal prices. Returning to a full six line operation would increase full time employment at the Hannibal facility up to 1,000 employees. In addition, the non-emergency amendments are needed to permit Ormet to transition to an onsite gas fired power plant. The plant would be constructed during the remaining term of the Unique Arrangement and create additional construction jobs to build the plant as well full time employment to maintenance and operate the power plant.

If the Commission grants the non-emergency relief, Smelter Acquisition, LLC has stated that it will actively pursue the construction of an on-site gas fired power plant sufficient to meet its long-term capacity and energy needs including application for construction, siting and transmission permits and determination of sources of financing. Also, Ormet will document to the Commission the major actions taken to complete a power plant on site by 2015 including permit filings, financing status, equipment purchases and retention of necessary environmental and engineering consultants.

Q13. If the proposed amendments were approved and Ormet purchased power from a CRES provider in 2014 and 2015, what payments would Ormet propose to make to AEP Ohio?

A13. Ormet agrees to apply the following credits to AEP Ohio. If the LME Price is between \$2490 and \$2789/metric ton, Ormet shall pay \$2.32/MWh for the energy it consumed for that month. If the LME exceeds \$2789/metric ton, Ormet shall pay \$4.64/MWh for the energy it consumed for the month.

Q14. What is the cost of this requested relief?

A14. The increase in the economic development rider payments to AEP Ohio customers for Ormet's requested emergency relief should be about \$3.4 million as estimated by AEP. The cost of the non-emergency relief for the transition year 2015 will consist of an estimated \$28.3 million if the power plant is built on time and an estimated \$2.2 million per month for each month the power plant is delayed after June 1, 2015.

Q15. Is the current market price of electricity above or below Ormet's price under the Ohio Power GS-4 standard service offer?

A15. Based upon the information received from Ormet's lender, the market price of electricity is now substantially below that of Ormet's price under the Ohio Power GS-4 standard service offer and the future effective cost of the standard service rate is not quantifiable.

A16. Has Ormet looked for alternative liquidity sources?

A16. Yes. Ormet received a Debtor in possession financing facilities from Wells Fargo Bank and Wayzata Partners, which provided an incremental thirty million dollars in available funds to get through the bankruptcy process. However, a combination of the significant unexpected increase in the 2nd quarter FAC charge in combination with the metal prices continuing to fall required Ormet to find additional liquidity sources to operate through August of 2013. Ormet has been able to obtain commitments for a new Asset Base Loan facility and a term loan facility to provide in excess of fifty million dollars of incremental liquidity upon a closing of a sale with Smelter Acquisition, LLC. However, Ormet is not able to access those additional funds until there are modifications to the existing Unique Arrangement, as that is the last condition precedent to a closing of the Sale.

Q17. Does this conclude your testimony?

A17. 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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