

BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

- - -

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

- - -

PROCEEDINGS

before Ms. Sarah Parrot, Attorney Examiner, at the
Public Utilities Commission of Ohio, 180 East Broad
Street, Room 11-A, Columbus, Ohio, called at 10 a.m.
on Tuesday, August 27, 2013.

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VOLUME I

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23 On behalf of the Staff of the PUCO.

24 - - -
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1 Tuesday Morning Session,

2 August 27, 2013.

3 - - -

4 EXAMINER PARROT: Let's go on the record.

5 The Public Utilities Commission of Ohio has called

6 for hearing at this time and place Case No.

7 09-119-EL-AEC being in the Matter of the Application

8 of Ormet Primary Aluminum Corporation for Approval of

9 a Unique Arrangement with Ohio Power Company and

10 Columbus Southern Power Company.

11 My name is Sarah Parrot. I am the

12 Attorney Examiner assigned by the Commission to hear

13 this case.

14 At this time I would like to take the

15 appearances from the parties, and we'll start with

16 Ormet and work our way around the table.

17 MR. PETRICOFF: Thank you, your Honor.

18 On behalf of Ormet Primary Aluminum Corporation,

19 Howard Petricoff from the law firm of Vorys, Sater,

20 Seymour & Pease, 52 East Gay Street. I would also

21 like to enter the appearance of Dan Barnowski from

22 the Denton Law Firm, 1301 K Street, Washington, D.C.

23 MR. NOURSE: Thank you, your Honor. On

24 behalf of Ohio Power Company, Steven T. Nourse, 1

25 Riverside Plaza, Columbus, Ohio 43215 and Andrew C.

1 Emerson from the law firm of Porter, Wright, Morris &
2 Arthur, is it 41 South High Street, Columbus, Ohio.

3 Thank you.

4 MR. McNAMEE: On behalf of the staff of
5 the Public Utilities Commission of Ohio, William L.
6 Wright, and I am Thomas W. McNamee. The address is
7 180 East Broad Street, Columbus Ohio.

8 MS. GRADY: Thank you, your Honor. On
9 behalf of the residential customers of the Ohio Power
10 Company, the Ohio Consumers' Counsel, Bruce J.
11 Weston, Consumers' Counsel, by Maureen R. Grady and
12 Tad Berger, 10 West Broad Street, Suite 1800,
13 Columbus, Ohio 43215.

14 MR. BOEHM: Good morning, your Honor. I
15 am David Boehm of the law firm of Boehm, Kurtz &
16 Lowery on behalf of the Ohio Energy Group. I would
17 also like to enter the appearance of Jody Kyler Cohn
18 and Michael Kurtz.

19 MR. DARR: Good morning, your Honor. On
20 behalf of the Industrial Energy Users of Ohio, I am
21 Frank Darr, also on brief with me would be Sam
22 Randazzo and Joe Olikier, 21 East State Street,
23 Columbus, Ohio.

24 MR. SIWO: Good morning, your Honor. On
25 behalf of the OMA Energy Group, J. Thomas Siwo and

1 Maria J. Armstrong, Bricker & Eckler, 100 South Third
2 Street, Columbus, Ohio 43215.

3 EXAMINER PARROT: Thank you.

4 Are there any other parties in the room
5 that are not seated at the tables?

6 All right. Very good. Are there any
7 members of the general public present in the room
8 today that wish to make a statement on the record at
9 this time?

10 All right. I see no hands.

11 Moving on are there any preliminary
12 matters to raise at this point before we get started
13 with our first witness of the day?

14 Mr. Petricoff.

15 MR. PETRICOFF: Yes, your Honor. Much of
16 the testimony and a lot of the discovery was filed
17 under seal and is confidential. So I would ask, if
18 possible, if counsel could organize their
19 cross-examination into public and confidential
20 sections so to sort of minimize the clearing the
21 room. I would just like to bring that to everyone's
22 attention.

23 EXAMINER PARROT: And if there is nothing
24 else from the parties, I am going to be addressing
25 the motions for protective order in a moment.

1 MR. NOURSE: I was --

2 EXAMINER PARROT: Mr. Nourse.

3 MR. NOURSE: I'm sorry, your Honor. I
4 was going to see if we could chat about the witness
5 order and the schedule. I will say for AEP Ohio
6 Witness Roush it was agreed between OCC and AEP that
7 he would not appear until tomorrow because of the
8 deposition schedule that was agreed to, but he is
9 certainly available tomorrow.

10 And I know there was some e-mail traffic
11 on the company Ormet witnesses so I am not clear on
12 where that stands, what the plan is for presentation.

13 EXAMINER PARROT: I think I responded
14 yesterday to Mr. Howard's e-mail, hopefully you did
15 receive that, but my intention was to adhere to his
16 proposed order of witnesses as much as we can.
17 Should we find ourselves in a situation where perhaps
18 we have time left at the end of the today, for
19 example, I would like to see another witness take --
20 take that opportunity to testify, if it's possible,
21 if people are here.

22 You know, I realize some of you are
23 traveling so that causes complications, but if
24 possible, I would like to kind of fill any gaps that
25 may arise in the schedule, if feasible.

1 MR. NOURSE: That's what I am asking.

2 MR. PETRICOFF: Your Honor, in that
3 regard the order will be as -- as we indicated in our
4 e-mail. We will start with Mr. Tanchuk, then
5 Dr. Coomes, then Mr. Thompson. If, in fact, there is
6 still day left, we have two Ohio witnesses, a Jim
7 Riley and David McCall. And Mr. Riley is here now so
8 he is ready to go, if that's the case. And if we are
9 really moving ahead, we can arrange to bring
10 Mr. McCall in so we can have up to five witnesses
11 today, if time permits.

12 MR. NOURSE: Thank you.

13 EXAMINER PARROT: Anything else?

14 All right. I am going to turn to the
15 motions for protective order. On July 15, 2013,
16 Ormet filed a motion for protective order with
17 respect to its business plan and power plant report.
18 Pursuant to an Attorney Examiner entry issued on
19 August 6, 2013, Ormet filed a redacted version of the
20 business plan and power plant report on August 9,
21 2013.

22 On August 6, 2013, Ormet filed a motion
23 for protective order with respect to Thompson Exhibit
24 MDT-5. That exhibit was not redacted by Ormat --
25 excuse me, Ormet.

1 Following a review of the redacted
2 business plan and power plant report, the Attorney
3 Examiner requests that Ormet make another attempt to
4 redact only the confidential trade secret information
5 in the business plan and power plant report. For
6 example, and emphasize this is only one example, the
7 business plan contains historical aluminum spot
8 pricing. This type of information was publicly
9 available in the earlier phase of this proceeding in
10 2009.

11 The Attorney Examiner questions whether
12 historical pricing information should be protected
13 from public release as Ormet contends. Therefore,
14 the Attorney Examiner directs Ormet to revise its
15 redacted business plan and power plant report to
16 ensure that only confidential trade secret
17 information is redacted and to file the revised
18 document by Friday, August 30.

19 Alternatively, if Ormet believes that
20 additional information cannot be released into the
21 open record, Ormet should file an amended motion for
22 protective order explaining in detail why the
23 redacted information is entitled to protective
24 treatment.

25 Additionally, Ormet should file a

1 redacted version of Thompson Exhibit MDT-5 also by
2 Friday, August 30.

3 The Attorney Examiner notes that the
4 information claimed by Ormet to be confidential will
5 be treated as such until a ruling is issued on the
6 motions for protective order. During the hearing if
7 a party intends to question a witness regarding
8 confidential information, please remember to inform
9 me so that the appropriate measures can be taken at
10 that time.

11 Any questions?

12 All right. Hearing none you may proceed,
13 Mr. Petricoff, with your first witness.

14 MR. PETRICOFF: Yes, your Honor. At this
15 time we would like to call to the stand Michael
16 Tanchuk.

17 MR. TANCHUK. Good morning.

18 EXAMINER PARROT: Good morning.

19 (Witness sworn.)

20 EXAMINER PARROT: Please be seated and if
21 you would turn your microphone on, hit the big button
22 at the bottom there.

23 MR. PETRICOFF: Your Honor, at this time
24 we would like to have marked as Ormet Exhibit No. 1
25 the direct prepared testimony of Michael F. Tanchuk.

1 EXAMINER PARROT: So marked.

2 (EXHIBIT MARKED FOR IDENTIFICATION.)

3 - - -

4 MICHAEL F. TANCHUK

5 being first duly sworn, as prescribed by law, was
6 examined and testified as follows:

7 DIRECT EXAMINATION

8 By Mr. Petricoff:

9 Q. Good morning, Mr. Tanchuk.

10 A. Good morning.

11 Q. Would you please state your name and
12 business address for the record.

13 A. Mike Tanchuk, business address is 43840
14 State Route 7, Hannibal, Ohio 43931.

15 Q. Do you have before you a copy of the --
16 your direct prepared testimony? It's just been
17 marked as Ormet Exhibit 1.

18 A. I do.

19 Q. Did you prepare this -- this testimony?

20 A. Yes, I did.

21 Q. Are there any changes or corrections you
22 would like to make to the testimony?

23 A. Yes. Inadvertently missed one number on
24 page 6, line 5, where there is question marks related
25 to the discounts remaining for this timeframe. It

1 should be 81-1/2 million. I apologize for that.

2 Q. With that correction if I were to ask you
3 the same questions today, would your answers be the
4 same?

5 A. Yes.

6 MR. PETRICOFF: Your Honor, the witness
7 is available for cross-examination.

8 EXAMINER PARROT: All right.

9 AEP, are you prepared?

10 MR. NOURSE: Yes, your Honor.

11 - - -

12 CROSS-EXAMINATION

13 By Mr. Nourse:

14 Q. Good morning, Mr. Tanchuk.

15 A. Good morning, Mr. Nourse.

16 Q. I just have a few questions for you.

17 A. Okay.

18 Q. Are you -- are you familiar with the
19 current contract that AEP Ohio has with Ormet?

20 A. I'm fairly familiar with the unique
21 arrangement, yes.

22 Q. Okay. Here it is.

23 MR. NOURSE: Your Honor, I would like to
24 mark AEP Ohio Exhibit No. 1.

25 (EXHIBIT MARKED FOR IDENTIFICATION.)

1 Q. Mr. Tanchuk, you are familiar with this
2 document I just handed you?

3 A. Yes, sir.

4 Q. This is the actual contract that AEP Ohio
5 and Ormet signed after the 2009 decision adopting the
6 unique arrangement which was issued by the PUCO; is
7 that your understanding?

8 A. Yes.

9 Q. Excuse me. And your signature appears at
10 the end of the document?

11 A. Well, my copy doesn't have a signature,
12 but I assume there is one with a signature.

13 Q. Okay. I can show you the one I have
14 that's signed but.

15 A. I trust you. Mine doesn't have the
16 signature.

17 Q. Okay. That was the one that was docketed
18 in this case --

19 A. Okay, okay.

20 Q. -- I believe. All right. So is that --
21 is that the contract you signed on behalf of Ormet?

22 A. Okay. I guess. I see where there's two
23 different pages and, I'm sorry, Steve, on page --
24 there's two pages 29 and my signature is on the first
25 page, yeah, and the signature --

1 Q. Yeah.

2 A. -- of AEP is on the second page so, yes.

3 Q. Thank you. Now, and you are generally
4 familiar with how the -- the contract provisions work
5 today?

6 A. Generally, yes.

7 Q. And how that affects Ormet's billing for
8 electric service?

9 A. Correct.

10 Q. Okay. And are you familiar with a
11 provision in this agreement that Ormet and AEP Ohio
12 agreed to that says if the Commission requires any
13 modification of the power agreement that is adverse
14 to one of the parties, then the contract can be
15 terminated?

16 A. I'm not specifically --

17 Q. Okay. Can you turn --

18 A. -- familiar.

19 Q. You are not recalling that?

20 A. No.

21 Q. If you turn to page 9, article -- section
22 3.01, and you see the part that says "Either party
23 may terminate this Power Agreement" A, B, C, D, E?

24 A. "In an Event of Default, if the
25 Commission rejects or requires a materially adverse

1 modification of a schedule submitted by Ormet, if the
2 Commission requires any modification to this Power
3 Agreement that is materially adverse to that Party
4 (as determined in the sole discretion of the relevant
5 Party), or if the Commission, in any order, whether
6 specifically modifying this Power Agreement or
7 otherwise, limits AEP Ohio's recovery of Delta
8 Revenues."

9 Q. Okay. I want to focus on part C there
10 where it says "if the Commission requires any
11 modification to this Power Agreement that is
12 materially adverse to that Party (as determined in
13 the sole discretion of the relevant Party). Okay.
14 Now, in this case we are sitting here today about
15 Ormet has proposed a modification to the agreement,
16 correct?

17 A. (Witness nods head.)

18 Q. And is it your understanding that AEP
19 Ohio believes the modifications are adverse to their
20 interests?

21 A. I can't speak for AEP. Obviously we
22 filed this solely on behalf of the company, but I
23 can't speak for AEP.

24 Q. Okay. And you've read the pleadings and
25 testimony that AEP Ohio --

1 A. Yes.

2 Q. -- submitted in this case? I believe you
3 said "yes" during my question.

4 A. I'm sorry. I'll let you finish.

5 Q. Okay. Now, so if you could look at the
6 next page on 3.03.

7 A. Okay.

8 Q. Okay. So can you just review that
9 provision and I will ask you a question about it,
10 3.03. You don't need to read it aloud.

11 A. Okay. Yes. It's the early termination
12 provision.

13 Q. Okay. And then -- so does that section
14 provide for a termination payment to your
15 understanding?

16 A. I really -- I'm not counsel. I can't
17 interpret it for you, Steve.

18 Q. Okay. So you're not familiar with this
19 termination payment provision in 3.03?

20 A. I'm generally but not whether it's
21 specific to your question.

22 Q. Okay. And has Ormet discussed the
23 prospect of making a termination payment under the
24 contract to AEP Ohio?

25 A. Discussed? Only through some general

1 conversations with AEP, yes.

2 Q. Okay. And is it Ormet's intent to make a
3 termination payment under the contract --

4 A. No, no, that's not the intent.

5 Q. Okay. And even -- even if the Commission
6 requires a modification that's materially adverse to
7 AEP Ohio, Ormet has no intention of making a
8 termination payment?

9 A. I can't speak to the future of what the
10 Public Utilities Commission will or will not do
11 related to what would be materially adverse, but at
12 this point in time, no.

13 Q. Okay. All right. Mr. Tanchuk, are you
14 familiar with the bankruptcy proceeding that's
15 pending currently in Delaware District Court --

16 A. Generally, yes.

17 Q. -- for Ormet? Okay. And are you
18 familiar with the financial reports that Ormet has
19 filed?

20 A. Yes. I see those reports.

21 Q. Okay. I'm not going to make it an
22 exhibit, but I want to ask you a question about this.
23 I'll show it to your counsel first and I'll have.

24 MR. PETRICOFF: I'm familiar with it.

25 Q. Okay. It's -- this document was

1 stapled --

2 MR. PETRICOFF: Your Honor, could we have
3 a moment because I think I might have that? I might
4 have that document I could follow along.

5 EXAMINER PARROT: You may.

6 Q. This is the front. It's stapled to the
7 back. Sorry.

8 A. Okay.

9 MR. NOURSE: The July report?

10 MR. PETRICOFF: Well, I am not sure I
11 have July. I think I have June but they're. Okay.
12 You can proceed.

13 Q. Okay. Mr. Tanchuk, do you have the
14 monthly operating report for the reporting period of
15 July, 2013, in the United States Bankruptcy Court
16 District of Delaware, Case No. 13-10334?

17 A. I do.

18 Q. And you are familiar with this operating
19 report?

20 MR. PETRICOFF: Hang on, your Honor. It
21 seems to me we may have produced these -- well,
22 actually let me ask a question. Are these
23 confidential in the bankruptcy court?

24 MR. NOURSE: I don't believe so.

25 MR. DARR: If I may, your Honor?

1 MR. NOURSE: I think we got this off -- I
2 don't think they are confidential.

3 EXAMINER PARROT: Mr. Darr.

4 MR. DARR: Thank you, your Honor. Excuse
5 me, Mr. Petricoff. I pulled down from the Ormet
6 website yesterday the July report which was filed on
7 August 21. I believe it's directly accessible from
8 the Ormet website. In fact, if we need to mark it, I
9 brought copies of it with me.

10 MR. PETRICOFF: I'm sorry, Mr. Darr.
11 What?

12 MR. DARR: I have copies available for
13 the hearing, if that would assist.

14 MR. NOURSE: I didn't intend to mark it;
15 but, you know, you can feel free to do that during
16 your cross-examination, if you want. Just have a
17 couple of quick questions about this. Are we okay to
18 proceed?

19 MR. PETRICOFF: We are okay to proceed.

20 Q. (By Mr. Nourse) So, Mr. Tanchuk, this
21 report is dated August 19 and signed by Thomas R.
22 Notaro?

23 A. Uh-huh, yes, I'm sorry.

24 Q. Okay. And on I guess it's page 2 of the
25 report, page 2 of 52, there's a financial statement

1 and this is basically January through July, 2013,
2 correct?

3 A. Yes.

4 Q. And there's year-to-date information
5 through July.

6 A. Yes.

7 Q. And so can you tell me what the net
8 income or loss was for Ormet year-to-date under this
9 report?

10 A. The net loss shown here was 82,675,000.

11 Q. And the -- can you also tell me the net
12 cash provided by (used in) investing activities
13 year-to-date?

14 A. Net cash negative 9,503,000.

15 Q. Okay. So this reflects -- I'm sorry.
16 Yeah, I asked for the year-to-date net cash, and I
17 don't know that you gave the correct number. Can you
18 look at that again, please.

19 A. The year-to-date net cash I show here is
20 9,503,000. Is that not right?

21 Q. Okay. The net cash used in operating
22 activities is what --

23 A. Operating activity, I'm sorry,
24 30,488,000.

25 Q. So that's a negative cash flow of

1 30 million?

2 A. Correct.

3 Q. Okay. So these financial figures
4 year-to-date reflect the fact that Ormet was
5 operating in bankruptcy under the bankruptcy
6 protections during that period, correct?

7 A. Uh-huh.

8 Q. And they reflect the discounts that Ormet
9 received under the AEP service agreement during that
10 period, correct?

11 A. Correct.

12 Q. And they reflect the additional financing
13 that Wayzata Financial Group provided in the context
14 of the bankruptcy proceeding to Ormet, correct?

15 A. If I could let Mr. Riley answer that
16 question, I believe that would be -- he was going to
17 give you much more detail, if that's okay.

18 Q. To answer the last question?

19 A. Yeah.

20 Q. That's fine. That's fair. Now,
21 Mr. Tanchuk, as your proposal here to the Commission
22 makes certain assumptions about the LME pricing into
23 the future, correct?

24 A. Correct.

25 Q. The aluminum price that you sell your

1 product into the market for --

2 A. Correct.

3 Q. -- correct? And I guess since it is not
4 in the record yet perhaps, the LME pricing, what's
5 that an acronym for?

6 A. London Metal Exchange.

7 Q. Okay. All right. Now, if -- if LME
8 prices are not sustained at the level you are
9 projecting or they fall below expected levels, would
10 that mean that Ormet would be coming back asking for
11 something more if that happens?

12 A. Not necessarily. I mean, what we've done
13 is reduced our operating costs dramatically from the
14 period of time last year through our changes in our
15 pension program, changes to our cash interest payment
16 to loans, and changes to our retiree VEBA.

17 That's almost -- it's close to \$400 a ton
18 so that it doesn't necessarily mean that we would be
19 losing money in the future. We have projections in
20 the -- in our business plan showing us returning to
21 profitability in the future and it would just affect
22 the amount of the profitability, I believe, if there
23 was some variation in metal prices.

24 Q. Okay. Do you have an LME break-even
25 point where if the pricing falls below that crossover

1 or breaking point -- I should say break-even price is
2 really what I meant to say, what would that be?

3 A. I think the number that I think would be
4 reasonable to assume as you go forward once we are at
5 full operating level would be somewhere around 2,000
6 to 2,200 dollars a ton would be the target range that
7 we would -- that would be without the Midwest
8 premium.

9 Q. So if the LME price falls below 2,000,
10 that it's likely you will be back asking for more
11 relief?

12 A. No, no. It's a commodity business so we
13 realize there's ups and downs. We finance our way.
14 There is other mechanisms to get through this process
15 that we've used in the past. Once we know where we
16 are going with the company we have metal being
17 forwards. We have prepricing. There is a lot of
18 risk management programs that allow us to -- to
19 address the varying LME. It's our business. So not
20 necessarily so.

21 Q. So are you just saying the price may dip
22 for a period but since you've got inventory or timing
23 flexibility in deliveries or other operational
24 hedges, so to speak, you can -- you can manage those
25 dips?

1 A. Normally, yes.

2 Q. Okay. But so is there a break-even price
3 of 2,000, 2,200, or not?

4 A. It's much more complex than that. There
5 is -- there is a number that we -- that is targeted
6 as a cash break-even but, again, there is a risk
7 management strategy around metal pricing that allows
8 us to -- the good thing about the commodity price is
9 that you can sell it forward at a certain price so
10 that allows us to put together a risk management
11 program that says once we reach a certain level we
12 can sell production forward for one to three years.

13 Q. Okay. So is it fair to say if there was
14 sustained LME prices below \$2,000?

15 A. For an extended period of time but,
16 again, this is a cyclical market and that's not
17 the -- what we believe will happen with metal pricing
18 going forward.

19 Q. Now, can you tell me what -- is there a
20 correlation between LME pricing and Ormet's earnings
21 or cash flow? Can you say a \$50 reduction in LME is
22 worth so much in earnings or cash --

23 A. We can but, again, I would leave that
24 question with Mr. Riley so you get a much more exact
25 answer.

1 Q. Okay, okay. So, Mr. Tanchuk, in the --
2 under the proposed plan is your expectation that
3 Ormet would become profitable independently of
4 support from ratepayers in the period after the power
5 plant is constructed; is that accurate?

6 A. I think what it shows is we return to
7 profitability based on the LME assumptions and so
8 forth sometime late 2014 into 2015, sustained
9 profitability once the power plant is built, yes.

10 Q. Okay. So once we get to that period
11 under your plan of ending the ratepayer support, is
12 there a plan to -- to pay back anything to the
13 ratepayers or state of Ohio once you become
14 profitable?

15 A. No. The contract as requested would go
16 through 2015 only.

17 Q. Okay.

18 A. And there is a -- there is a premium
19 programmed in the contract or in the arrangement
20 through that period of time.

21 Q. Meaning if the LME price goes up above a
22 certain trigger point, there will be reduction in
23 delta revenues?

24 A. Yeah, correct. Realize just to -- as a
25 reminder, we are paying back the deferral during this

1 time so that adds to the cash requirements of the
2 company during those 2014 and '15.

3 Q. The deferral from your 2012 electricity
4 used?

5 A. Yes, yes, the 27.3 million.

6 Q. Yeah. And so since you mentioned the
7 premium provision is it your expectation that LME
8 prices would go above the trigger level?

9 A. For '15 it's very possible, yes.

10 Q. Okay. So that's the extent of the
11 ratepayer payback under your proposal?

12 A. Correct, along again with the financial
13 benefits of the company -- of the company going
14 forward.

15 MR. NOURSE: Okay. That's all I have.
16 Thank you, Mr. Tanchuk.

17 THE WITNESS: Thank you.

18 EXAMINER PARROT: All right. Let's skip
19 staff for now. OCC?

20 - - -

21 CROSS-EXAMINATION

22 By Mr. Berger:

23 Q. Good morning.

24 A. Good morning.

25 Q. Mr. Tanchuk, my name --

1 EXAMINER PARROT: Mr. Berger, yeah,
2 please use the microphone.

3 MR. BERGER: Thank you.

4 Q. My name is Tad Berger. I am with the
5 Office of Ohio Consumers' Counsel. I have some
6 limited questions.

7 MR. BERGER: First, I would like to mark
8 an exhibit, your Honor, OCC Exhibit No. 1 which is a
9 copy of the company's response -- Ormet Corporation's
10 responses to OCC's Fifth Set of Interrogatories.

11 EXAMINER PARROT: So marked.

12 (EXHIBIT MARKED FOR IDENTIFICATION.)

13 Q. Now, Mr. Tanchuk, you would agree with me
14 that the company -- Ormet Corporation is not making
15 any promises that it will be able to remain in
16 business for any particular period of time; is that
17 correct?

18 A. The commitment that we make in the
19 proposal is that we maintain 650 jobs during this
20 period of time and that's a commitment we made and
21 1,000 jobs if we get running up to six lines.

22 Q. And that commitment will last only as
23 long as the discounts last.

24 A. Correct.

25 Q. So the commitment is basically that if

1 the company is not able to sustain that level of
2 employment, that it will no longer be permitted to
3 receive the discounts; is that correct?

4 A. Correct.

5 Q. Has the company made a commitment that it
6 will not seek to revise that limitation?

7 A. No.

8 Q. Okay. And would you agree with me that
9 the company is not making any promises about the two
10 incremental potlines above the four that are
11 currently in service?

12 A. No promises but, if I could, it's a great
13 opportunity to really get to the break-even levels
14 that I talked about, you need to be at full
15 production and so that -- those two potlines would
16 allow us to get up to that rate level.

17 Q. How many potlines are currently
18 operating?

19 A. Two of six.

20 Q. And when does the company expect the four
21 that it had operating previously to come back into
22 service if the unique arrangement is approved?

23 A. We are preparing the potline -- excuse
24 me. We are preparing the potlines now for restart.
25 People are digging the pots getting them ready for

1 restart. It will depend on the outcome of these
2 hearings, and it will depend on where the LME is at
3 the time, but it will take us probably two or three
4 months to get those two potlines back up and
5 operating once a decision is made.

6 Q. Now, if you'll refer to the OCC Exhibit
7 1, you provided a response to Interrogatory No. 71
8 that said that "the decision to return the two
9 incremental potlines to service will be based upon
10 economic viability." That's on page 14.

11 A. Uh-huh.

12 Q. I gather you don't have a particular
13 definition of economic viability for purposes of
14 these responses?

15 A. No.

16 Q. And I think also economic -- in terms of
17 these responses economic viability is not defined in
18 terms of the price of aluminum, although you've
19 alluded to the price of 2,000 to 2,200 dollars as
20 kind of a break-even for the company?

21 A. I think economic viability would be
22 mainly around two things. One would be the result of
23 these hearings and the power price that's applicable
24 and the London Metal Exchange pricing at the time.

25 Q. Mr. Tanchuk, is the price of somewhere

1 between 20 -- 2,000 and 2,200 necessary to achieve
2 economic viability?

3 A. In the short-term I -- I -- I can't say
4 that it would be. Remember where I alluded to that
5 was the long-term after you are operating six
6 potlines so incrementally I can tell you the intent
7 of Ormet is to restart the whole plant and restart
8 these two potlines because the plant itself doesn't
9 maintain profitability at low operating levels so you
10 need unit production to -- to return to profitability
11 so the intent is to do that as quickly as possible.
12 I can't give you today a specific number because we
13 are waiting to see what happens with these hearings,
14 and we will make a determination at the time. But we
15 are spending the money and the time to prepare the
16 lines for restart.

17 Q. You would agree with me that given the
18 uncertainties in the prices -- prices of aluminum in
19 the marketplace that it's possible that even with the
20 discounts the company could cease to operate at some
21 point in the future even after it's received all the
22 discounts; is that correct?

23 A. Possible but not likely.

24 Q. Do you know what the LME price of
25 aluminum is currently?

1 A. The three month is around \$1,860 in
2 metric ton, something -- I didn't look this morning.

3 Q. Would you agree -- the company is
4 planning to construct its own generating facility
5 beginning hopefully to operate the beginning of June,
6 2015; is that correct?

7 A. Correct.

8 Q. But any plans to go forward with that are
9 from the results of this proceeding, correct?

10 A. Correct.

11 Q. There is an 18-month lead time for that
12 construction?

13 A. For -- excluding permitting there is an
14 18 -- about an 18 month, lead time of two months of
15 the commissioning, but Mr. Thompson will address that
16 specifically in his testimony. But obviously there
17 is a permitting requirement period of time also. So,
18 you know, what we would do, what we have committed to
19 do, because what we can control is to get the
20 application together, submit it for approval, go for
21 financing and so forth for the project. If all that
22 turns out to be green, then the project will proceed.
23 That's what's committed to in the application because
24 I can't speak for the regulatory bodies about
25 approving the siting and so forth.

1 Q. Are you aware -- do you know whether the
2 self-supply the company has constructed, whether the
3 company plans to connect that to the electric grid?

4 A. You would need to in case the plant was
5 down for any reason because the potlines cannot go
6 any length of time without power so you would have to
7 be connected to the grid.

8 Q. Would you then receive service through
9 AEP if that was the case?

10 A. Not necessarily in the future.

11 Q. Okay. And is it the company's plan to be
12 able to sell power from its -- from its generation
13 facility if it doesn't need all that power for its
14 own use?

15 A. The objective is to build it obviously as
16 a captive facility for the plant and that's the
17 reason you would physically build a facility on site.
18 To optimize the financials around it, there may be
19 some time that power sales make sense depending on
20 time of day and natural gas prices and so forth but
21 that's not the intent of the facility.

22 Q. And would you agree with me that it's
23 possible that once that facility is constructed that
24 the company Ormet Corporation or the smelting
25 operation could go out of business if aluminum prices

1 and other factors don't cooperate and Wayzata
2 Investment Partners, the financier of the plant,
3 could use that facility then to generate electricity
4 on the grid?

5 MR. PETRICOFF: Objection, your Honor.
6 There is nothing in the record that shows Wayzata has
7 bought this facility. In fact, that's one of the
8 intended outcomes of this proceeding, to allow that
9 to take place.

10 EXAMINER PARROT: Response, Mr. Berger?

11 MR. BERGER: Well, whether Wayzata has
12 bought the facility or not -- they haven't bought the
13 facility yet, but they are the ones who are financing
14 the facility on behalf of Smelter Acquisition, and I
15 believe that they would ultimately be the owner of
16 that facility. If not, my question isn't specific to
17 who the owner is. It doesn't matter to me who the
18 owner is. All I am asking is whether the financier
19 of that business would then -- or the owner of that
20 business -- of that plant would then be able to use
21 it to supply electricity into the grid.

22 EXAMINER PARROT: With that
23 clarification, I will allow the question. Please
24 answer.

25 A. Again, it is absolutely not the intent to

1 do that. Could that happen? It's possible but not
2 likely. You are not going to invest in a facility on
3 site to serve a smelter for the purpose of supplying
4 the grid because then you would have to compete with
5 all the other units and you would have to carry all
6 the other costs that go into supplying to the grid.

7 When you supply directly to the plant,
8 there is a huge disadvantage related to the structure
9 of the transmission and so forth that allows the
10 plant to be much more competitive for the smelter.
11 So I think the bias of the economics is to use the
12 electricity for the smelter.

13 Q. Now, are you aware Wayzata Investment
14 Partners has built other or financed other natural
15 gas-fired combine central plants?

16 A. Yes. And Mark Thompson will speak to
17 that, yes.

18 Q. And are you aware that none of those
19 plants have been used exclusively for self-supply?

20 A. Correct, because they didn't own any
21 other facilities that could physically use the power
22 on site. This is again a unique opportunity I think
23 for all of us to do this.

24 Q. On page 3 of your testimony, Mr. Tanchuk,
25 there you say the current minimum cost to deliver

1 power --

2 A. I'm sorry, I can't hear you.

3 Q. You say that the estimated delivered cost
4 of power to smelters in North America is \$27.90 a
5 megawatt-hour?

6 A. Yeah. That was in Q2, 2013, yes.

7 Q. And was that price provided -- you didn't
8 come up with that price yourself, did you?

9 A. No. It came from Harbor Intelligence's
10 power report, and Jorge Vazquez will be here
11 tomorrow. He could answer specifically but that's a
12 number reported as Q2, 2013, yes.

13 Q. Okay. So that comes from Mr. Vazquez's
14 company.

15 A. Yeah, Harbor Intelligence.

16 Q. And he would be the better person to
17 testify how that number was derived?

18 A. Yes, as far as specifics. Generally,
19 again, this is the North American delivered costs to
20 primary aluminum plants.

21 Q. Do you understand that price to be an
22 average and that may differ from one service area to
23 another?

24 A. Yeah, it would definitely differ because
25 some of this is going to be hydroelectric in Canada

1 and, you know, remember, this is North America not
2 just U.S. and some of these are LME-based power
3 prices so with the LMEs down you may have -- you may
4 have a time where the power prices in North America
5 are down which is the cause right now. So that's why
6 this number of 27.9 is a fairly low number for
7 this -- for North America. It usually is a little
8 bit higher, but at this point in time this is the
9 number.

10 Q. But yet your -- your projected -- your
11 projected cost for the -- I think this is in
12 Mr. Thompson's testimony too.

13 A. Uh-huh.

14 Q. Projected costs of production for these
15 plants --

16 MR. BERGER: That's not a confidential
17 number because I think he has it in his testimony,
18 41? 41 to 43 dollars a megawatt hour?

19 MR. PETRICOFF: No, that's not a
20 confidential number.

21 Q. You are aware that that's substantially
22 higher than this average cost.

23 A. Yeah. It's substantially higher than the
24 North American cost. It's not substantially higher
25 than the worldwide cost. It's probably about the

1 average for the worldwide cost. North America is
2 advantaged to having a lot of hydroelectric
3 facilities, but a coal-based facility or a facility
4 in Europe or others would be probably higher than
5 that so I -- based on the LME and our cost situation,
6 we believe we can compete long term at \$40 -- \$42
7 delivered.

8 Q. Do you know what that worldwide average
9 price is?

10 A. It's around 41 right now, but it includes
11 China so I would caution you to ask those questions
12 of Mr. Vazquez tomorrow because China is a very
13 complex market.

14 Q. Do you know what prices Wayzata has
15 produced power at its other facilities?

16 A. I do not.

17 Q. And has -- has Ormet notified PJM of its
18 plans to self-supply?

19 A. We've had informal conversations with
20 PJM, but an official notification is awaiting these
21 proceedings.

22 MR. BERGER: That's all I have. Thank
23 you very much.

24 THE WITNESS: Thank you.

25 EXAMINER PARROT: OEG?

1 MR. BOEHM: No questions, your Honor.

2 EXAMINER PARROT: IEU.

3 MR. DARR: Thank you, your Honor.

4 - - -

5 CROSS-EXAMINATION

6 By Mr. Darr:

7 Q. First of all, Mr. Tanchuk, I would like
8 to clear up a couple of questions that I believe were
9 raised by Ohio Power. You mentioned that the current
10 price I believe on the forward, three-month forward,
11 is about \$1,860 per metric ton; is that correct?

12 A. Correct.

13 Q. And you also mentioned that that did not
14 include what you described as a Midwest premium.

15 A. Correct.

16 Q. What is the Midwest premium?

17 A. The Midwest -- there is a premium for
18 various locations around the world. And depending
19 on -- it consists of transportation costs from the
20 site, and it consists of the supply demand basis for
21 that region in the U.S., it's called the Midwest
22 premium, and it has been forever. So it's an adder
23 onto the -- the London Metal Exchange price and there
24 is one for Japan. There is one for China, different
25 parts of the world.

1 In our particular case it is a -- in our
2 contracts with our buyers there is a discount to the
3 Midwest to account for two things. One is the
4 transportation because we don't supply
5 transportation. We deliver from the plant. And
6 there also is a grade which means the iron level
7 that's in the metal, whether it's higher or lower,
8 that would be either a premium or a discount to the
9 Midwest.

10 Q. Now, with regard to the prices that
11 you've put into the business plan, are those prices
12 with or without Midwest premium?

13 A. You would have to show me specifically
14 but every place where very specific -- that I
15 remember we net out the discounts, and any revenue we
16 show is net of those discounts.

17 Q. And for purposes of the record you
18 indicated that you could potentially hedge one to
19 three years in advance, but you identified only the
20 one year -- excuse me, the three-month forward. What
21 is the basis for the one- to three-year hedge?

22 A. The forwards go out now over 20 years so
23 you could -- you can -- you can preprice. Hedging is
24 not the right word, but you can preprice really any
25 timeframe. I'm telling you from my experience

1 pricing -- prepricing in the range of one to three
2 years normally gets you through ups and downs in the
3 cycles so we have a risk mitigation plan around that
4 timeframe that would allow us to get through.

5 As an example, when we went through the
6 recession period in the U.S., we were -- we were
7 prepriced during that period of time and that's why
8 you didn't see us here. So it can go out for many,
9 many years, but we look from a risk management point
10 of view of one to three years.

11 Q. Very good. Now, under the current
12 arrangement that you have with AEP Ohio, you post to
13 the Commission -- or file with the Commission a set
14 of prices each year usually in October, correct?

15 A. That was the prior, yes, prior years,
16 yes.

17 Q. And under the current filing the
18 calculated price of the discount is designed such
19 that if the assumptions concerning the London Metal
20 Exchange price of aluminum are correct, Ormet would
21 realize a zero positive cash flow. Do I have that
22 stated correctly?

23 A. For that period -- for the current unique
24 arrangement, you are correct.

25 Q. And under the current unique arrangement

1 that would permit a discount on a monthly basis that
2 Ormet is currently realizing of about \$5-1/2 million;
3 is that correct also?

4 A. Well, the total discounts for this year
5 under the current arrangement is 44 million.

6 Q. I understand that the cap of the current
7 arrangement is 44 million.

8 A. Right.

9 Q. But the price that you would be allowed
10 to -- excuse me. The discount that you would be
11 allowed to collect on a monthly basis under the
12 current arrangement is \$5.5 million, correct?

13 A. Until -- you know, until you reach the
14 cap of 44 million.

15 Q. And, in fact, you will reach the cap this
16 month, correct?

17 A. Yes.

18 Q. And by this month I mean August, 2013.

19 A. August, yeah.

20 Q. So for the remainder of the current year,
21 Ormet would be scheduled -- all other things being
22 equal would be scheduled to pay the current tariff
23 price of power, correct?

24 A. Just only -- the answer would be yes but
25 the only addition to that is we did receive the

1 deferral last week for part of the billing for July
2 through September so that it's -- it would be spread
3 out over a little bit different timeframe this year
4 but generally you are correct.

5 Q. And under the current understanding, you
6 would be responsible -- you being Ormet would be
7 responsible for paying the amount that would be
8 deferred by the Commission's order last week within a
9 certain amount of time after the deal with Wayzata
10 closed, correct?

11 A. Correct.

12 Q. So effectively, all other things being
13 equal, Ormet is responsible for the full tariff price
14 for the remainder of this year under the current
15 unique arrangement.

16 A. Under the current, yes.

17 Q. Now, you've reported in your testimony
18 that you are currently realizing something in the
19 neighborhood of \$30 million annually in reduced
20 expenses associated with the operation of the Ormet
21 aluminum plant, correct?

22 A. That is correct.

23 Q. And you also report in your testimony
24 that you have realized savings of about \$278 million
25 with regard to adjustments in the pension liabilities

1 of Ormet, correct?

2 A. Correct.

3 Q. And if we look at that on a seven-year
4 basis, that would work out to about \$40 million of
5 annual pension savings over the seven-year period
6 that you identified, correct?

7 A. No. That's not just pension. That
8 includes liability related to VEBA and liability
9 related to the loan so I would ask you if you would
10 ask Mr. Riley. He can lay those out specifically for
11 you, each piece of that. The 278 is the total of the
12 time.

13 Q. Okay. With that correction that includes
14 more than just pension. It also includes some
15 medical and also -- and also some liability.

16 A. Right.

17 Q. But the realization on an annualized
18 basis would be roughly \$40 million over the
19 seven-year outside window that you state in your
20 testimony, correct?

21 A. Yeah, approximately, I think it is.

22 Q. Now, the increased discounts that you are
23 looking for this year roughly accrued to \$22 million;
24 am I correct in that?

25 A. Again, I would ask you to -- if you could

1 hold that question for Mr. Fayne. He will be able to
2 go through that in detail with you.

3 Q. That's fair but what you are asking for
4 is to have an additional \$5-1/2 million for the
5 remainder -- a month for the remainder of the year,
6 correct?

7 A. Correct.

8 Q. And if we did the multiplication, it
9 would come out to roughly \$22 million.

10 A. Right.

11 Q. Not roughly, it would come out to exactly
12 \$22 million, wouldn't it?

13 A. Yes.

14 Q. So if I understand it correctly, based on
15 the questions that were asked by Mr. Nourse on behalf
16 of Ohio Power, you currently have a net income
17 position over the first eight months of this year
18 that is in the range of 60 to 70 million dollars for
19 Ormet Primary Aluminum alone, correct?

20 A. Uh-huh, yes.

21 Q. And that's with the realization of some
22 or all of the \$30 million in operational savings for
23 this year?

24 A. Correct, and all the expenses of the
25 bankruptcy and so forth, yes.

1 Q. And that also includes some realization,
2 maybe as much as \$40 million, associated with the
3 restructuring of the health care and pension
4 benefits?

5 A. Not a full realization this year but
6 obviously we -- we did not pay the pension payments,
7 and the VEBA payments have been deferred so we have
8 been able to reduce our cash costs by that, yes.

9 Q. By the same token you've identified in
10 your testimony that the current average North
11 American price of power is about \$27.90 a
12 megawatt-hour. You mentioned that with Mr. Berger;
13 is that correct?

14 A. Correct.

15 Q. And you are proposing this year a power
16 price that would be \$45.38 per megawatt hour on an
17 average basis, correct?

18 A. Again, I would defer to Mr. Fayne to
19 explain the specifics as to the complexity answer and
20 that is just a piece of the -- of the process so I
21 would ask that you defer those questions to Henry
22 Fayne.

23 Q. Now, am I correct that you have had some
24 contacts with potential CRES providers to provide
25 service on a going forward basis?

1 A. Limited informal contacts, yes.

2 Q. And, in fact, you've gotten some
3 recommendations in terms of prices in the range of
4 40-1/2 to 41 dollars per megawatt-hour; is that
5 correct as well?

6 A. That's going to be again on Mark Thompson
7 can speak specifically around that but that would be
8 without some of the wires and so forth.

9 Q. But the generation piece of it would be
10 in that range; is that correct?

11 A. Yes, uh-huh.

12 Q. Thank you. But you currently don't have
13 any contracts in place on a continued basis for
14 providing power starting on January 1, 2014; is that
15 correct?

16 A. No, but that could be done fairly
17 quickly.

18 Q. Okay. We are going to need to straighten
19 the record out on that question and answer. Am I
20 correct that there are no contracts in place for the
21 provision of generation service on January 1, 2014?

22 A. There are no contracts in place.

23 Q. Thank you. You can probably see what the
24 problem was with the prior question and the answer.
25 We had too many negatives floating around in that.

1 MR. DARR: Your Honor, the remainder of
2 the questions I have relate to the business plan. I
3 tried to pull off the questions and answers off of
4 the sections that I think were part of the public
5 version that Ormet filed recently, but I'm more than
6 willing to lay that over for a minute just to make
7 sure we don't cause any problems.

8 EXAMINER PARROT: Let's -- let's go off
9 the record briefly.

10 (Discussion off the record.)

11 EXAMINER PARROT: Let's go back on the
12 record.

13 Mr. Darr, if you would wish to mention, I
14 guess on the record, I think you've just agreed to
15 defer questions regarding the business plan to -- to
16 a future witness so.

17 MR. DARR: That's correct, your Honor.

18 EXAMINER PARROT: Do you have further
19 questions for Mr. Tanchuk?

20 MR. DARR: Not at this time.

21 EXAMINER PARROT: Thank you. OMAEG?

22 MR. SIWO: No questions, your Honor.

23 EXAMINER PARROT: Thank you.

24 Staff?

25 MR. McNAMEE: Yes, thank you, your Honor.

1 Just a few.

2 - - -

3 CROSS-EXAMINATION

4 By Mr. McNamee:

5 Q. Good morning, Mr. Tanchuk.

6 A. Good morning, sir.

7 Q. The continued operation of Ormet provides
8 benefits to the region that it sits in, doesn't it?

9 A. Correct.

10 Q. Okay. And that region consists of areas
11 in Ohio but also areas in West Virginia, perhaps even
12 Pennsylvania?

13 A. The plant's located in Ohio. We do have
14 employees that live in West Virginia, only one that
15 lives in Pennsylvania.

16 Q. Only one, okay. Has Ormet approached any
17 government entities in West Virginia or Pennsylvania,
18 I guess, to determine if there is any sort of
19 assistance that would be available to help sustain
20 Ormet's continued operations?

21 A. Ormet itself has not had any direct
22 conversations, but I have -- I have had feedback that
23 Governor Tomblin from West Virginia is -- has been
24 approached and is potentially looking at potential
25 help for the situation, yes.

1 Q. Has any help been arranged?

2 A. No.

3 MR. McNAMEE: Thank you. That's all I
4 need.

5 THE WITNESS: Thank you.

6 EXAMINER PARROT: Any redirect,
7 Mr. Petricoff?

8 MR. PETRICOFF: One moment.

9 EXAMINER PARROT: Sure.

10 MR. PETRICOFF: We have no questions,
11 your Honor, on redirect.

12 EXAMINER PARROT: Okay. Thank you very
13 much.

14 Would you care to move your exhibit at
15 this time?

16 MR. PETRICOFF: Yes, your Honor. Ormet
17 would move for admission into the record of Ormet
18 Exhibit 1.

19 EXAMINER PARROT: Are there any
20 objections?

21 Hearing none Ormet Exhibit 1 shall be
22 admitted into the record.

23 (EXHIBIT ADMITTED INTO EVIDENCE.)

24 EXAMINER PARROT: Mr. Nourse.

25 MR. NOURSE: Your Honor, I would like to

1 move for admission of AEP Ohio Exhibit 1.

2 EXAMINER PARROT: Any objections to the
3 admission of AEP Exhibit 1?

4 Hearing none it shall be admitted.

5 (EXHIBIT ADMITTED INTO EVIDENCE.)

6 EXAMINER PARROT: Mr. Berger.

7 MR. BERGER: Thank you, your Honor. We
8 would like to move for the admission of OCC Exhibit
9 1.

10 EXAMINER PARROT: Any objections?

11 Hearing none OCC Exhibit 1 will be
12 admitted.

13 MR. PETRICOFF: Your Honor, just a
14 question, just the portions that were examined or?

15 MR. BERGER: No.

16 MR. PETRICOFF: It was a whole set that
17 you put in. Is it just the portion that was examined
18 on, or are you putting in the whole set?

19 MR. BERGER: We are putting in the whole
20 set.

21 MR. PETRICOFF: I would, your Honor. I
22 have no problem for the portions that were used for
23 the examination but what was not used in the
24 cross-examination didn't rise to the merit in OCC's
25 view to get into the record.

1 EXAMINER PARROT: Mr. Berger, response?

2 MR. BERGER: Your Honor, a number of the
3 questions related to Mr. Tanchuk's testimony. I
4 asked him questions indirectly. I didn't necessarily
5 reference him to particular questions, but they
6 related to his testimony such as whether they were
7 going to start up potlines 2 and 4 and depends on
8 economic viability. A number -- a number of
9 interrogatories were related to those things. I
10 didn't feel it was necessary to reference each one in
11 order to have him directly review that particular
12 response.

13 MR. PETRICOFF: Your Honor, when you
14 piece through this, there are all kinds of things in
15 here that have nothing to do with the questions like
16 executive pay and for that just to show up all of a
17 sudden in the brief, that would be terribly unfair.
18 The whole idea of having a record is to contain the
19 information that the Commission could use to make a
20 decision.

21 MR. BERGER: Your Honor, the company did
22 not identify who the witnesses were for all these
23 questions and interrogatories. If they want to
24 advise us who the questions are, we can ask
25 particular -- who the questions were answered by, we

1 can ask those particular witnesses, but short of that
2 I would have to go through each one of these
3 questions with a witness and find out whether they --
4 whether they were the responsive party.

5 I know with respect to questions 66
6 through 74 Mr. Tanchuk's testimony was specifically
7 referenced in asking those questions. And those were
8 the areas that I went through with the
9 cross-examination on him -- of him. But if the
10 company wants to identify who the questions -- the
11 rest of the questions were addressed by, we can
12 direct any of those questions to them.

13 MR. PETRICOFF: Your Honor, if you would,
14 if I may reply, discovery ended days ago, a week ago.
15 Now is not the time to be asking additional --
16 additional questions. The witness was here. If it
17 was important, they could have asked the witness. We
18 have other witnesses coming. They can certainly ask
19 the -- anything that has to do with their testimony.

20 Most of this discovery is off the -- such
21 as the compensation is really off the -- off the
22 testimony itself. Remember in discovery it is
23 permissible to ask a question that's not relevant but
24 could lead to a relevant answer. We are here today
25 for the relevant information.

1 MR. BERGER: Your Honor, finally I would
2 point out that the rules specifically provide in
3 responding to discovery the responding party is
4 supposed to specifically provide the name of a
5 witness and have them sign that -- each particular
6 response. That's in Ohio Administrative Code
7 4901-1-19 Section (A). Thank you.

8 EXAMINER PARROT: All right. At this
9 point it's my recollection that OCC's question -- I
10 think it was just maybe one single question even,
11 maybe a couple, but anyway pertained to Interrogatory
12 71, and I think we got the gist of the question and
13 answer in the record through Mr. Tanchuk's testimony
14 so I'm going to deny the motion to admit this into
15 the record at this time.

16 If you wish to make further use of this
17 through other witnesses, that, of course, is fine and
18 we can take up the matter again at that point, but
19 based on what use has been made of the
20 interrogatories this far, I am going to deny the
21 motion at this time.

22 MR. BERGER: Thank you, your Honor.

23 EXAMINER PARROT: All right. Thank you,
24 Mr. Tanchuk. You are excused.

25 THE WITNESS: Thank you very much.

1 EXAMINER PARROT: Mr. Petricoff or
2 Mr. Barnowski?

3 MR. PETRICOFF: Yes, your Honor. At this
4 time we would like to call to the stand Dr. Paul
5 Coomes.

6 (Witness sworn.)

7 EXAMINER PARROT: Please be seated.

8 MR. PETRICOFF: And, your Honor, if I
9 could, I would like to have marked as Ormet Exhibit
10 No. 2 the direct prepared testimony of Paul Coomes.

11 EXAMINER PARROT: So marked.

12 (EXHIBIT MARKED FOR IDENTIFICATION.)

13 - - -

14 PAUL COOMES, PH.D.

15 being first duly sworn, as prescribed by law, was
16 examined and testified as follows:

17 DIRECT EXAMINATION

18 By Mr. Petricoff:

19 Q. Good morning, Mr. -- Dr. Coomes.

20 A. Good morning.

21 Q. Dr. Coomes, could you state your -- your
22 name and business address for the record.

23 A. Paul A. Coomes and I'm at 3604 Trail
24 Ridge Road, Louisville, Kentucky 40241.

25 Q. And, Mr. -- Dr. Coomes, did you prepare

1 the testimony that has now been marked as Ormet
2 Exhibit No. 2?

3 A. I believe it's the same as this
4 testimony.

5 Q. Yes, that's it.

6 A. Yes, sir.

7 Q. Okay. And are there any corrections or
8 additions you would like to make to that testimony?

9 A. Actually I have one correction that's
10 probably my mistake. There is a typo on page 2, line
11 16. It's not that material, but we might as well fix
12 it. There I state the source for some wage data as
13 being the State of Ohio's Statistical Portfolio. It
14 should be the U.S. Bureau of Labor and Statistics.

15 Q. With that correction made if I were to
16 ask you the same questions today, would your answers
17 be the same?

18 A. Yes, sir.

19 MR. PETRICOFF: Your Honor, the witness
20 is available for cross-examination.

21 EXAMINER PARROT: Thank you. Mr. Nourse?

22 MR. NOURSE: No questions, thank you,
23 your Honor.

24 EXAMINER PARROT: OCC?

25 MS. GRADY: Thank you, your Honor.

CROSS-EXAMINATION

By Ms. Grady:

Q. Good morning, Mr. Coomes.

A. Good morning.

Q. Now, on page 1 of your testimony, I want to direct your attention to lines 14 through 15 and there you indicate that your last report was presented in testimony to the PUCO last year, correct?

A. Yes, ma'am.

Q. And that report was dated July 30, 2011?

A. Yes, ma'am.

Q. When did you conduct the study which resulted in the July 30, 2011, report?

A. I can't tell you the exact day or month, but it would have been, I'm sure, June, July of that year, of 2011.

Q. And you have not revised or updated that July 30, 2011, report, correct?

A. That's correct. I have not revised the report.

Q. Now, in your July 30, 2011, report, you analyzed the likely economic and fiscal impacts in the region if the Hannibal smelter were to close; is that correct?

1 A. Yes, ma'am.

2 Q. And by the region, you are referring to
3 the tri-state area of Pennsylvania, West Virginia,
4 and Ohio, correct?

5 A. Yes, ma'am, seven counties in the region.

6 Q. So, for instance, when we turn to your
7 finding on page 2, line 7, when you are referring to
8 Ormet employing around 1,000 people, you were
9 speaking of the tri-state area and not just Ohio
10 alone.

11 A. The residents of -- the employees live in
12 the seven-county region. Obviously all the jobs, the
13 work basis, are in Ohio, you are correct.

14 Q. And when you conducted your study in
15 July 30 of -- dated July 30, 2011, your study was
16 based on Ormet employing 1,000 people; is that
17 correct?

18 A. Roughly, give or take 30 or 40 people. I
19 think it was about a 1,030 at the time.

20 Q. And at the time six potlines were being
21 operated by Ormet; is that correct?

22 A. Yes, ma'am.

23 Q. Do you know, Dr. Coomes, how many
24 employees Ormet currently employs?

25 A. Not -- not really. I do not.

1 Q. Would you understand that it is less than
2 the 1,000 amount of employees that were employed at
3 the time of your July 30, 2011, study?

4 A. I'm sure that's true because as you
5 reduce potlines, you reduce the number of workers you
6 need on site so I don't know how many less it is, but
7 it is no doubt hundreds. If we are at two potlines,
8 it's going to be 1 to 2 hundred, 3 hundred less, but
9 I don't know the answer.

10 Q. Okay. And do you know how many potlines
11 are currently being operated by Ormet?

12 A. Well, I heard a few minutes ago that
13 there are only two operating now. So I think last
14 month there were four, but I'm just picking this up
15 today.

16 Q. And if there are four potlines being
17 operated, for instance, you would expect that Ormet
18 would employ less than 1,000 people?

19 A. I would expect that, yes.

20 Q. Now on page 2 of your testimony, lines 11
21 through 13, you indicate there you estimated that the
22 total net impact in the region would be a job loss of
23 3,117 jobs and 218 -- excuse me, \$238 million in
24 total employee compensation, correct?

25 A. Yes, ma'am.

1 Q. And, again, the region that you are
2 referring to is the tri-state region, correct?

3 A. Yes, although it's primarily Ohio and
4 West Virginia, yes.

5 Q. And the loss figure is based on your
6 assumption of Ormet employing 1,000 people, correct?

7 A. Yes, yes, ma'am.

8 Q. Now, Dr. Coomes, according to the payroll
9 records at the time of your study, 58 percent of the
10 1,000 plant employees lived in Ohio, correct?

11 A. Yes, ma'am.

12 Q. And for purposes of your study you didn't
13 allocate the wages and salaries by county; is that
14 correct?

15 A. Yeah. I never had the information about
16 the payroll distribution, only the place of residence
17 of the employees.

18 Q. If you assumed that the pay is
19 distributed geographically the same as the jobs,
20 would you agree with me that approximately
21 36.6 million of total annual wages and salaries went
22 to Ohio residents?

23 A. I believe you are speaking about the
24 direct impacts.

25 Q. Yes.

1 A. From the plant, not -- and that does not
2 include any of the spinoff benefits to Ohio residents
3 or employees, so I believe that's correct, 58 percent
4 times the payroll of the plant which was 60 something
5 million so that sounds correct.

6 Q. And the \$238 million figure that you
7 referred to on line 11, does that include only direct
8 job impacts?

9 A. Oh, no. The 238 million is the total
10 regional impact so that includes all of the supplier
11 linkages to the plants, you know, to other industries
12 and their employees, and it also includes any jobs
13 and payroll related to retail spending in the region
14 as employees and their households purchase items in
15 the regional economy so that's the total value from a
16 compensation point of view.

17 Q. Now, if we wanted to look at the wages
18 and salaries of Ohio -- let me strike that.

19 Let's assume hypothetically that we
20 wanted to look at the wages and salaries of Ohio
21 residents only and let's also assume that the
22 employees numbers in total dropped because the
23 company is operating less potlines, would you agree
24 with me the \$63 million in wages that you list on
25 line 7 would drop?

1 A. If I understand your question correctly,
2 you are asking me if the company operated less than
3 six potlines, would the total direct payroll of the
4 client be less than 63 million and the answer would
5 be yes.

6 Q. And would you agree with me if the
7 company is -- if Ormet is operating four potlines
8 instead of six, and we assume that we're looking only
9 at the salaries of Ohio residents, that the wages and
10 salaries would drop to approximately \$27.6 million?

11 A. I don't know exactly because -- you're
12 probably close but to know the truth we would have to
13 know of the people who were not needed when you
14 reduced the production of the plant, how many of
15 those were salaried versus hourly and what is the
16 geographic distribution of their place of residence.
17 But under that assumption that's the same
18 distribution, your math sounds okay to me.

19 Q. Dr. Coomes, were you responsible for
20 responding to OCC discovery, if you know?

21 A. I think so. I received a couple of
22 things I responded to, but I can't remember who asked
23 me what questions.

24 MS. GRADY: Your Honor, may I approach
25 the witness?

1 EXAMINER PARROT: You may.

2 MS. GRADY: If counsel could provide the
3 witness with what has been marked as OCC Exhibit No.
4 1 and I am going to direct the witness to
5 Interrogatory No. 52.

6 Q. Dr. Coomes, could you take a moment to
7 review that.

8 A. I see the questions and the answers but
9 these were not my -- I didn't respond to these. I'm
10 not sure where this came from, so.

11 Q. And, Dr. Coomes, does it indicate in
12 response to Interrogatory -- let me -- let me try it
13 this way, Interrogatory No. 52 asks to "identify the
14 wages of Ohio only employees at Ormet which would be
15 associated with" and there's three scenarios,
16 "operation of four potlines, operation of two
17 potlines, and operation of six potlines." Do you see
18 that?

19 A. Yes, ma'am.

20 Q. And in response to the interrogatory that
21 asked for the wages of Ohio only employees at Ormet
22 associated with four potlines the response is
23 \$27.6 million for the period of July 1, 2012, through
24 June 30, 2013. Do you see that?

25 A. Yes, ma'am.

1 Q. Does that appear to you to be a correct
2 and reasonable computation of the wages of Ohio only
3 employees at Ormet associated with the operation of
4 four potlines?

5 A. It sounds plausible, but the number
6 didn't come from me. I am assuming the plant
7 provided the number through the attorneys. The
8 question Interrogatory 52 didn't have my name in the
9 question so I didn't feel it was my job to respond
10 and so I'm assuming somebody else did.

11 MR. PETRICOFF: Your Honor, for the
12 record Mr. Riley has the payroll records, and he
13 would be the one you could ask that question to.

14 MS. GRADY: Thank you, Mr. Petricoff.

15 Q. Now, let's focus for a moment on lines 11
16 and 12 on page 2, again on the loss of 3,117 -- 3,117
17 jobs. You indicated earlier those include more than
18 direct jobs, correct?

19 A. Yes, ma'am.

20 Q. Those would include what you would
21 characterize as spinoff jobs, correct?

22 A. That's a common term, yes, ma'am.

23 Q. And can you define for me what you mean
24 by spinoff jobs?

25 A. In the world there is certain modeling of

1 industrial impacts on regions. I don't want to give
2 you a seminar. I'm sorry, as a professor, I could
3 give you a long answer. But a short answer is the
4 spinoff impacts in a region on a job basis have --
5 are two types. One are the linkages to the vendors.
6 So, for example, to make primary aluminum you have to
7 purchase alumina and you have to bring barges in or
8 trucks or whatever, rail to bring raw materials in.
9 You also have to purchase electricity, which is a
10 major component, electricity.

11 So those sort of vendors, local
12 electricians and suppliers and tradespeople, those
13 are all vendors to the plant. That's one piece of a
14 spin -- the spinoff impact.

15 The other is what happens with the
16 employees and the vendors. Employees have more
17 income in their households, and they use that to
18 purchase restaurant meals, insurance, dentist visits,
19 and so on. That's the second component, the
20 household impact.

21 So baked into this 3,117 total regional
22 job impact of my estimate are the thousand direct
23 jobs at the plant plus all of the inner-industry
24 linkages through the vendors and their employees plus
25 the retail component through the household spending.

1 That's all in that 3,117 number.

2 Q. And when you looked at the household
3 spending, did you study or analyze the impact of
4 increased costs to customers of AEP Ohio from paying
5 increased discounts to Ormet?

6 A. I have not looked at that.

7 Q. And, again, and I apologize if it's
8 sounding like a broken record, but with respect to
9 the 3,117 jobs and the \$238 million that you
10 calculate on lines 11 and 12 of page 2, again,
11 that -- these -- these are based upon Ormet employing
12 a thousand employees and based on the tri-state
13 region?

14 A. Yes, ma'am.

15 Q. Now, if we wanted to identify how many of
16 those 3,117 jobs would be attributed to Ohio
17 residents, would it be appropriate to assume that
18 because of the distribution of employees that
19 58 percent of the direct -- or of the plant jobs
20 being held by Ohio residents, that would equate to
21 58 percent of the 3,117 jobs?

22 A. That would be a good place to start. You
23 wouldn't actually know the geographic distribution of
24 the spinoff jobs without doing some more study which
25 I've never looked into in any depth. It could be

1 done. You would need to know something about the
2 vendor networks on each side of the river, how many
3 are in West Virginia, how many are in Ohio, and then
4 you would also need to know something about the
5 retail distribution in the region so -- and I just
6 have never looked at it. It's technically possible,
7 but we've never parsed it that way.

8 Q. Is it reasonable to assume that the
9 spinoff jobs are distributed geographically the same
10 as the direct jobs?

11 A. As I say, that's a good starting
12 assumption but I don't know.

13 Q. Now, Dr. Coomes, you have not calculated
14 as we sit here today how many spinoff jobs would be
15 lost if Ormet shuts down assuming the current level
16 of Ormet's employment, have you?

17 A. So I think my 2011 report addresses that
18 exactly. Your question was what would be the impact
19 if the company -- if the plant shut down which is
20 exactly the focus of my study in 2011, and the
21 numbers that you have been citing are my estimates of
22 the regional impact of a shutdown of the smelter.

23 Q. But your -- but your study though,
24 Dr. Coomes, focused on a thousand -- employing a
25 thousand employees. I guess my question really goes

1 to we've talked about earlier that Ormet is not
2 employing a thousand people at this point, that it's
3 employing hundreds less than the thousand, so my
4 question really is have you looked at the -- the
5 spinoff jobs that would be lost considering the
6 reduced level of employment that is occurring at
7 Ormet?

8 A. To answer that I would need to know how
9 many employees they had at four potlines, the two
10 potlines, and then subtract that from my estimates of
11 a total shutdown. Obviously it gets complicated
12 because you will keep salaried people on, you can't
13 turn those off and on as easily as you can wage and
14 salary production workers as production levels
15 change.

16 I heard earlier testimony that there's a
17 lot of preparation going on to restart potlines. I
18 don't know how many employees are involved in that so
19 I've not made the estimate that you're -- you're
20 asking me about, I don't believe, so.

21 Q. Do you have an understanding when Ormet
22 will get back to the -- a thousand employment level?

23 A. Based upon the testimony I heard a few
24 minutes ago, they plan to be to six potlines. It
25 will take a few months to do it assuming they

1 reconcile things here, so I'm assuming we're talking
2 about a few months from now. By the end of the year
3 they could be up to six potlines and be back to a
4 thousand jobs and it sounds reasonable.

5 I do have about six or seven years of
6 history of the plant and their payrolls, and I know
7 when they stopped and started six potlines and four
8 and two. There is a long history of this and you do
9 see the step downs as potlines are taken offline and
10 then when they go back to full production with six
11 potlines, they go right back to a thousand jobs. So
12 I think it's a pretty fixed, reliable number, the
13 thousand employees it takes to run the smelter at
14 full operation.

15 Q. And when you say step downs, you're
16 talking about the tri-state region impacts; is that
17 what you are talking about, or the -- or are you
18 talking about step down of employees?

19 A. I was talking about taking potlines
20 offline, yeah.

21 Q. Now, on page 4 on lines 13 and 14, you
22 are responding to a question that says "What is the
23 total benefit, in terms of employee compensation and
24 taxes paid, per year of Ormet running at six potlines
25 per year" and you respond that it is \$250 million per

1 year. Do you see that?

2 A. Yes, ma'am.

3 Q. That is assuming a thousand employees,
4 correct?

5 A. Yes, ma'am.

6 Q. And it's also assuming the tri-state
7 region impact, correct?

8 A. Yes, ma'am. This is the regional --
9 regional impact estimated.

10 Q. Do you know what the lost employee
11 compensation would be if one were to consider the
12 level of employees associated with the four potline
13 operation?

14 A. Not precisely. I think you get into that
15 in the next question, don't we? No?

16 Yes. So there's a -- I will let you
17 ask -- I believe we get into that in the next
18 question of my testimony, correct, about sort of the
19 marginal difference between full production and four
20 potlines?

21 Q. And that 218 million you reference on
22 lines 8 --

23 A. Yes, ma'am.

24 Q. -- of page 5?

25 A. Yes, ma'am.

1 Q. And, again, the 218 million is a
2 tri-state regional amount?

3 A. It is.

4 Q. And if we wanted the Ohio only impact,
5 could we take 58 percent of the 218 million and reach
6 126.4 million?

7 A. As we discussed before, that's a good
8 place to start.

9 MS. GRADY: Thank you, Dr. Coomes.
10 That's all the questions I have.

11 EXAMINER PARROT: OEG?

12 MR. BOEHM: I have no questions for this
13 witness.

14 EXAMINER PARROT: IEU?

15 MR. DARR: Very briefly, your Honor.

16 - - -

17 CROSS-EXAMINATION

18 By Mr. Darr:

19 Q. As you indicated to counsel for OCC, you
20 have not looked at the effect of possible increased
21 costs on other customers of the AEP system in making
22 your calculations, correct?

23 A. That's correct.

24 Q. And, in fact, this issue came up the last
25 time you testified with regard to the current

1 reasonable arrangement or unique arrangement. You
2 did not make that calculation at that time either,
3 correct?

4 A. That's correct.

5 Q. Is it fair to say that the IMPLAN model,
6 at least the way you've run it for purposes of the
7 2011 report, was limited specifically to the positive
8 impacts that might occur as a result of the operation
9 of Ormet at the full six line capacity?

10 A. So my charge was to estimate the value of
11 the smelter to the regional economy, and so in that
12 sense I was trying to estimate the economic benefits
13 to the region of the plant operating. So I'm not
14 sure what negative aspects you would want me to
15 consider. So I looked at the vendors, the payrolls,
16 the taxes paid. I'm not sure what you -- what you
17 would want me to address from a negative point of
18 view.

19 Q. Well, were there any changes in other
20 costs, for example, an increase -- we've already
21 identified one. There is a potential increase in the
22 cost of -- to other customers under the proposal
23 presented by Ormet. Is there anything like -- like
24 that embedded in the IMPLAN model that the Commission
25 should know about?

1 A. The IMPLAN model certainly would
2 automatically try to attribute an increase in
3 electricity rates in the region from some other
4 action and then sort of follow on and try to measure
5 any kind of downstream economic -- negative economic
6 impacts. It could be done with the model. If the
7 assumptions are stated correctly and given to the
8 model, it can come back and make estimates. I think
9 your question has to do with if I was looking at the
10 regional economic impacts of the smelter, is there
11 some sort of possible feedback in the form of higher
12 electricity rates in the region and that is
13 theoretically possible to do, but I did not do it.

14 Q. And by the same token you didn't do it
15 for the statewide effect either, correct?

16 A. I have made no estimates of the economic
17 or fiscal impacts for the whole state of Ohio, simply
18 the region, and then as you see in the tables, I've
19 parsed out the amount going to Ohio and West Virginia
20 as far as the taxes.

21 MR. DARR: Thank you. I have nothing
22 further.

23 EXAMINER PARROT: OMAEG?

24 MR. SIWO: No questions, your Honor.

25 EXAMINER PARROT: Staff?

1 MR. McNAMEE: Yes. Yes, but very few and
2 fewer now that we've gone through the others.

3 - - -

4 CROSS-EXAMINATION

5 By Mr. McNamee:

6 Q. Good morning, Dr. Coomes.

7 A. Good morning.

8 Q. How are you?

9 A. Super.

10 Q. Good. The multipliers that you used were
11 developed by IMPLAN; is that correct?

12 A. Not strictly so.

13 Q. Oh, okay. Tell me where they come from.

14 A. Well, that's the platform that I used to
15 construct a custom model of this region. And then
16 the model gets simulated and from that process you
17 get the multipliers so it's not as if I went to the
18 company which is headquartered outside of Minneapolis
19 and purchased multipliers. What I purchased was some
20 software and a lot of very rich county-specific data
21 for the region.

22 I used the software to build what's
23 called an input-output model of the seven-county
24 region, and then I simulated what would happen if the
25 smelter was shut down, and then it estimated how that

1 would reduce vendor purchases, vendor sales,
2 employment, retail sales in the region, and then from
3 that you can derive multipliers. So sorry for the
4 long-winded answer but it's not -- it's not exactly
5 the way you said it.

6 Q. Good. And that's exactly what I wanted.
7 Thank you. Let me see here, page 3, line 9, excuse
8 me, you use the phrase "export-based expansions" --
9 oh, I guess you mean "or contractions" instead of "of
10 contractions" but what do you mean by "export-based"?

11 A. I'm sorry. It's a term that regional
12 economists use to distinguish between industries that
13 are there to serve only the local population, say dry
14 cleaners or a barber shop. They are absorbing money
15 from the local economy to sustain their businesses.
16 People don't go to Monroe County from, say, let's say
17 Pittsburgh to get a haircut. You get a haircut in
18 Pittsburgh.

19 Other industries sell their product
20 outside the region almost totally, and aluminum is a
21 great example of that, so when they sell aluminum on
22 the international market, the proceeds from those
23 sales, those revenues primarily flow back to the
24 Monroe County plant and the region to pay for their
25 supplies and employees and compensation so that's

1 what the term means, export-based. It's an industry
2 company that is exporting the product outside the
3 region and brings in what we call new dollars to the
4 region as opposed to just recycling dollars that are
5 already there. Is that clear?

6 Q. Yes, I think it is. So then it's a
7 question of dollars flowing in and dollars flowing
8 out.

9 A. And in this case the dollars are flowing
10 in because the product is sold outside the region.
11 It's very important in economic impact studies to
12 make the distinction that a lot of people make the
13 mistake, for example, take a Starbucks. I would say
14 that there is no economic impact of the Starbucks
15 that's a block from this building because they are
16 not selling -- they are not bringing in new money
17 into the Columbus economy. They are absorbing
18 dollars that are already here from you and I
19 purchasing a cup of coffee.

20 Q. Okay.

21 A. The dollars within the region are just
22 circulating within that region. Most retail is that
23 way.

24 Q. Okay.

25 A. So regional economists don't believe you

1 should be applying multipliers, for example, to a
2 retail operation or something that just serves the
3 local market so it's not legitimate to do these kinds
4 of studies for a -- or at least have multipliers like
5 you are seeing here like 2 and 3 for a business or an
6 industry that is just like a grocery store, for
7 example, is primarily almost -- is totally selling
8 their goods to local residents, and they are
9 absorbing dollars that are already there. What makes
10 the economy grow is an industry that exports its
11 product --

12 Q. Okay.

13 A. -- like aluminum.

14 Q. Would it be correct to say that some of
15 the dollars flowing into this regional economy would
16 be the support that's offered for the operation of
17 Ormet under the terms of the contract that we're
18 talking about here; would that be fair?

19 A. At least from the narrow prism I look at
20 it with to make aluminum you have to purchase
21 electricity. So in my modeling they purchase
22 electricity at whatever the price is, so I'm not
23 distinguishing the net effects of any kind of
24 discounting or arrangements that you all make. I
25 have not delved into that at all so. If the -- if

1 the electricity plant were, let's say, in Monroe
2 County or in the adjacent county in Ohio, Belmont I
3 believe is there, the multiplier effect in my
4 estimates would be bigger because they would be
5 purchasing one of their important inputs, namely,
6 electricity from within the region instead of from
7 out of the region.

8 Currently I don't believe the electricity
9 is produced in the region. I could be wrong, but I
10 don't believe it's purchased there. I don't know so
11 which means that the dollars used to purchase
12 electricity go elsewhere, and I'm assuming AEP is
13 headquartered in Columbus, correct? So --

14 Q. Yes.

15 A. -- the dollars that the smelter spends to
16 purchase electricity go to support their facilities
17 for generation but also the headquarters here and all
18 the administrative people so that's the way the
19 models work and you are asking me questions about
20 discounting and rates that I have no expertise in and
21 very little knowledge of.

22 Q. Okay. But suffice it to say your
23 modeling doesn't consider any effect of taking
24 dollars from one portion of AEP's service territory
25 and moving them to another?

1 A. I have not looked at that. When I was
2 asked to examine this, I analyzed it from the point
3 of view of the regional economic impact of the
4 smelter in the historical data I have.

5 Q. Okay.

6 A. The question you asked could actually be
7 answered with some precision; but, you know, it would
8 take some work.

9 Q. It hasn't been done; you haven't done it.

10 A. I haven't done it.

11 Q. Fair enough. One other -- one other
12 thing, page 3, line 19, you refer to an average wage
13 of -- average wage of \$61,000. That's an arithmetic
14 average, I bet.

15 A. I don't -- are we on the same page?

16 Q. I wrote down the wrong page. It's page
17 2, line 19, not page 3.

18 A. I'm with you. The average wage is
19 \$61,000.

20 Q. Arithmetic average, I assume?

21 A. It's the total wages and salaries divided
22 by the total number of employees.

23 Q. Okay. So you don't know the median by
24 any chance, do you?

25 A. Arithmetic average I don't. I do have a

1 simple breakout. I can't remember exactly what it
2 is, but I do have a breakout of the number of
3 salaried workers versus production workers.

4 Q. That's my next question. That would be
5 great.

6 A. I can't remember the exact numbers, but
7 it's something like, I am going to say, about 800
8 production workers and 200 salaried workers. There
9 are people here who know the exact answer and the
10 average pay for the salaried workers is higher than
11 the average pay for the production workers just from
12 memory, just a guess.

13 Q. But you don't remember how much?

14 A. Roughly the average pay of a production
15 worker, as I remember, was about \$54,000 and probably
16 the average pay of the salaried worker was closer to
17 \$100,000 but there are people here who could tell you
18 exactly the breakout.

19 MR. McNAMEE: Okay. That's all I have.

20 Thank you.

21 EXAMINER PARROT: Any redirect?

22 MR. PETRICOFF: Just one question.

23 - - -
24
25

REDIRECT EXAMINATION

By Mr. Petricoff:

Q. Dr. Coomes, all things being equal, if, in fact, Ormet did build the power plant on site and you went back to redo the study and everything else was the same, would the multipliers go up and would the -- would the impacting the local area, the \$250 million, go up?

A. So let me just make an assumption, qualify this as I answer it. Assuming that the electricity currently is generated outside the region and sold to Ormet, if a generating facility was put in the region to supply Ormet, our models would produce a higher multiplier, regional economic multiplier, because it -- it's what we call an international trade and regional economic import substitution. You are making something at home that you used to have to import, and when that happens, it makes the regional economy grow faster because you have more -- you are capturing more of the dollars.

MR. PETRICOFF: No further questions.

Thank you.

EXAMINER PARROT: Mr. Nourse, any recross?

MR. NOURSE: No, your Honor.

1 EXAMINER PARROT: Ms. Grady?

2 MS. GRADY: No questions, your Honor.

3 EXAMINER PARROT: OEG?

4 MR. BOEHM: No questions.

5 EXAMINER PARROT: IEU?

6 MR. DARR: No, thank you.

7 EXAMINER PARROT: OMAEG?

8 MR. SIWO: No questions.

9 EXAMINER PARROT: Staff?

10 MR. McNAMEE: No, thank you.

11 EXAMINER PARROT: Would you care to move
12 your exhibit at this time?

13 MR. PETRICOFF: Yes, your Honor. We
14 would move for admission into evidence Ormet Exhibit
15 No. 2.

16 EXAMINER PARROT: Any objections?
17 Hearing none Ormet Exhibit No. 2 is
18 admitted.

19 (EXHIBIT ADMITTED INTO EVIDENCE.)

20 EXAMINER PARROT: Thank you very much,
21 Dr. Coomes.

22 Let's go off the record briefly.

23 (Discussion off the record.)

24 EXAMINER PARROT: Let's go back on the
25 record.

1 Mr. Petricoff, the next witness.

2 MR. PETRICOFF: At this time I would like
3 to call to the stand Mark Thompson.

4 (Witness sworn.)

5 MR. PETRICOFF: Your Honor, at this time
6 I would like to have marked as Ormet Exhibit No. 3
7 the direct prepared testimony of Mark D. Thompson.

8 EXAMINER PARROT: So marked.

9 (EXHIBIT MARKED FOR IDENTIFICATION.)

10 - - -

11 MARK D. THOMPSON

12 being first duly sworn, as prescribed by law, was
13 examined and testified as follows:

14 DIRECT EXAMINATION

15 By Mr. Petricoff:

16 Q. Good morning, Mr. Thompson.

17 A. Good morning.

18 Q. Would you please state your name, your
19 business affiliation, and your business address for
20 the record.

21 A. My name is Mark Thompson. I'm employed
22 by Wayzata Investment Partners, 701 East Lake Street,
23 Suite 300, Wayzata, Minnesota 55391.

24 Q. And do you have with you what has just
25 been marked as Ormet Exhibit No. 3?

1 A. Yes.

2 Q. And is that your direct prepared
3 testimony?

4 A. Yes.

5 Q. And did you prepare the answers to that
6 testimony?

7 A. Yes.

8 Q. Actually the answers to that document.
9 Are there any changes, corrections you would like to
10 make to the document?

11 A. Not at this time.

12 Q. If I were to ask you the same questions
13 today that are in Ormet Exhibit No. 3, would your
14 answers be the same?

15 A. Yes.

16 MR. PETRICOFF: Your Honor, at this time
17 the witness is available for cross-examination.

18 EXAMINER PARROT: Thank you.

19 AEP?

20 MR. NOURSE: No questions, your Honor,
21 thank you.

22 EXAMINER PARROT: All right. OCC?

23 - - -

24

25

CROSS-EXAMINATION

By Mr. Berger:

Q. Good morning, Mr. Thompson. My name is Tad Berger. I'm with the Office of the Ohio Consumers' Counsel. Pleasure to meet you. I just have a few questions for you.

Basically as I understand your current position, you basically are responsible for dispatching the load at the plants owned and operated by Wayzata; is that correct?

A. That's part of my position, correct. That's my primary role, correct.

Q. What other -- what other aspects are there to your employment that you are doing currently?

A. I mean, as AEP can tell you, operating a power plant is not just that simple so it involves a wide range of negotiating interconnection agreements, natural gas contracts, interfacing with all the counterparties, staying up on FERC regulations, staying up on EPA rules, working through the ISO tariffs, things like that. I mean --

Q. There's a lot to what you do.

A. Yes, sir.

Q. Not just dispatching power, okay. You

1 would agree that your experience, however, doesn't
2 relate specifically to self-supply facilities such as
3 proposed for Ormet; is that correct?

4 A. I apologize. I'm having difficulty
5 hearing you for some reason. I don't know why.

6 Q. I'm sorry.

7 A. Maybe because of my background noise
8 right behind me.

9 Q. Your appearance doesn't relate
10 specifically to self-supply facilities such as that
11 proposed to be constructed for Ormet's operations?

12 A. Not specifically, no.

13 Q. But your purpose here I think you
14 indicate in your testimony is to testify as to the
15 sustainability of Ormet's self-supply strategy; is
16 that correct?

17 A. Energy supply strategy.

18 Q. You haven't looked at their energy supply
19 strategy, however, in terms of their total economics
20 of operation; is that correct?

21 A. No.

22 Q. So when you're talking about the economics
23 of the energy supply, you are basically talking about
24 whether 41 to 43 dollars is an achievable cost of
25 production for their facility -- for the facility

1 that you are planning for them; is that correct?

2 A. In overall energy supply, correct.

3 Q. Did your feasibility study only look at
4 using the facility to serve Ormet, or did it also
5 look at selling the power produced by this facility
6 into the grid?

7 A. It was an economic dispatch review which
8 includes a combination of dispatching a facility to
9 support on site load, buying in power, when it was
10 economic to buy in power such as off-peak periods,
11 which is considered nighttime hours because Ormet is
12 a 100 percent base load unit. The region is coal
13 dominated as you are aware and as well as using some
14 duct firing and ancillary services to either supply
15 ancillary service requirements or to sell those
16 ancillary service requirements to the grid.

17 Q. Did you also look at the possibility of
18 that Ormet could go out of business and that a backup
19 contingency for the use of the power from the plant
20 would be to supply the grid with this power?

21 A. That would be an unfortunate circumstance
22 obviously.

23 Q. Obviously.

24 A. But one that we -- everybody in the room
25 would -- I think any normal rational person would

1 look at that. So we did include what was the market
2 value for a new generation facility to be dispatched
3 into the market on a merchant basis similar to how
4 AEP will dispatch their generation post-June, 2015.

5 Q. Am I correct that Wayzata is already
6 substantially invested in Ormet Corporation? Do you
7 know?

8 A. I'm not on the team, the investment team,
9 but I know that we do have an investment in Ormet.

10 Q. Do you know the size of the investment in
11 Ormet?

12 A. I do not.

13 Q. Now, you project a sustainable cost of 41
14 to 43 dollars for the 2016 to 2022 time period and
15 that's a substantial premium over the \$27.90 that
16 Mr. Riley talks about is the average cost of power in
17 North America. Are you familiar with his figure?

18 A. I think it was Mr. Tanchuk.

19 Q. I'm sorry, Mr. Tanchuk.

20 A. I'm familiar with his testimony and his
21 quote. My feasibility study was developed to look at
22 worst case scenario. The power plant and the market
23 provides power for me anywhere from \$24 to \$36. All
24 in cost based on different gas sensitivity, different
25 rider sensitivity, different dispatch roles,

1 depending on when the power plant was dispatched or
2 not take your long-term sustainable price in the 41
3 to 43 dollar range but it -- in the -- there's also
4 times, for example, 2012, where prices were \$24.

5 Q. You haven't analyzed -- you haven't
6 analyzed how the fact that the company's -- or the
7 plant is to produce a natural gas fired plant with
8 deliverable cost of 41 to 43 dollars will fair in
9 terms of aluminum production economic viability with
10 other plants in the industry or other plants around
11 the world. You haven't done that evaluation, have
12 you?

13 A. That was not my scope. And just to
14 clarify the 41 to 43 that's in my testimony was the
15 high case or quote worst case scenario for
16 sustainability. That's what I was asked to give,
17 numerous cases, low case, medium case, high case, and
18 they were to -- Ormet was then to take the worst case
19 scenario and to see if that was still sustainable
20 from their operations.

21 Q. Thank you. And your projection is for an
22 18-month construction period; is that correct?

23 A. That's boots on the ground construction,
24 correct.

25 Q. Okay. And previous to that you need to

1 have a period for permitting; is that correct?

2 A. Yes.

3 Q. I think you indicate in your testimony
4 that the necessary equipment for construction is all
5 immediately available; is that right?

6 A. Yes. I have personally inspected it.

7 Q. You would agree that -- is the current
8 plant behind schedule given the fact that approval
9 has not been given yet?

10 A. I would say the current plan is at risk
11 and behind schedule for the most part.

12 Q. Do you know how far behind it is behind
13 schedule currently?

14 A. Four months.

15 MR. BERGMANN: Okay. Just one minute,
16 your Honor.

17 That's all I have. Thank you very much,
18 Mr. Thompson.

19 THE WITNESS: Thank you.

20 EXAMINER PARROT: Mr. Boehm?

21 MR. BOEHM: Nothing, your Honor.

22 EXAMINER PARROT: IEU?

23 MR. DARR: No, your Honor. No, thank
24 you.

25 EXAMINER PARROT: OMAEG?

1 MR. SIWO: No questions, your Honor.

2 EXAMINER PARROT: Staff?

3 MR. McNAMEE: Thank you.

4 - - -

5 CROSS-EXAMINATION

6 By Mr. McNamee:

7 Q. Good morning.

8 A. Good morning.

9 Q. In order to begin construction of the
10 project you have to have permits. One of the permits
11 you need is from the Ohio Power Siting Board. Have
12 you filed an application with the Ohio Power Siting
13 Board?

14 A. We have met with them on two separate
15 occasions over the phone, but we have not filed our
16 permit. We have our application. We have engaged a
17 firm, an environmental consulting firm, to assist us
18 in drafting that.

19 Prior to filing with the Siting Board,
20 you are required to know the exact spot of the power
21 plant across the 236 acres that we have -- or that
22 Ormet has at the site so there's been a lot of work
23 on civil work, you know, design that's gone into
24 preparing for the application.

25 I will note though that as part of the

1 Senate Bill, I don't have it in front of me right
2 now, that was pushed forward last year, that the
3 Siting Board process is about 60 to 90 days now.

4 Q. Okay. It would be the accelerated
5 process or -- I can't recall the terminology. Is
6 that right?

7 A. Correct. There is a Senate Bill that was
8 pushed forward by mainly gas producers to assist them
9 in getting wells drilled and things like that,
10 infrastructure.

11 Q. There are others -- there are other
12 certificates or permits that would be required as
13 well?

14 A. Absolutely.

15 Q. And what are those?

16 A. Obviously EPA permits. This project in
17 particular would fall below the federal threshold for
18 emissions except for greenhouse gases. And so it is
19 still a Title 5 project that would go through what we
20 call NSR, New Source Review, and PSD which is, I
21 always have to look down, Potential for Significant
22 Deterioration. So you would go through an EPA
23 process that is managed by the Ohio Air Quality
24 District under their SIP rights.

25 Q. You had an idea how long the Ohio Power

1 Siting Board process would take. How long would this
2 EPA process take?

3 A. It takes anywhere from 9 to 12 months.

4 Q. 9 to 12 months?

5 A. It could be done in six but.

6 Q. Is it possible to begin construction
7 before that process is completed?

8 A. You can move dirt, and you can, you know,
9 sign up contracts for all your equipment. Your --
10 unless you receive a waiver you are usually not
11 allowed to start pouring concrete, things like that.

12 Q. Is there any sort of water permit that's
13 required?

14 A. Yeah. There's a list of permits. I
15 didn't mean to stop at the EPA but, yes, there is a
16 list of permits. There's NPDS permit. Everything is
17 an acronym in the industry, as you are probably
18 aware. There's others. The NPDS which is the
19 pollution discharge, but I will state that the
20 project already has both a Title 5 and NPDS permit so
21 the Title 5 would be separate, but the NPDS would be
22 part of the site permit.

23 And so we would be making modifications
24 to the existing site. So it goes into spill
25 prevention and discharge, how you are handling

1 wastewater, how you are pulling water from the
2 ground, things like that.

3 Q. Okay. So essentially you have part of
4 your water requirement -- permitting requirements but
5 not all.

6 A. We would have to amend our existing
7 rights, give us the -- would give us the right to
8 have the project on site, but we would have to amend
9 it for those -- for power generation.

10 Q. Okay. The Army Corps of Engineers?

11 A. The USACE is a wetland review so if you
12 are going to impact any wetlands, you are going to do
13 an environmental study to make sure there is no
14 endangered species that you are impacting, things
15 like that, and those are the types of activities that
16 we're actually doing now just to make sure in our
17 site review that we're not what we would consider
18 hurting a slang term is bugs and bunnies of -- in the
19 area or on the site.

20 Q. Have you actually file -- made the
21 necessary filings to request this approval?

22 A. Some of those permits are permitted by
23 rule so basically it's a statewide permit and you
24 have to assert you will comply with that permit and
25 you have to set up the measures to comply with those.

1 Some of those you are not actually applying for. You
2 are asserting that your activities will follow the
3 permits that are -- that are set as a statewide
4 permit so permit may rule.

5 The other permits that you will do will
6 encompass studies that you'll bring in, you know,
7 wildlife experts to come in and survey the area for a
8 period of time to make sure there's no migration
9 patterns or anything like that.

10 Q. But for permits of that sort, those would
11 not prevent you from beginning construction.

12 A. Not from beginning construction. Well,
13 some of them would. The endangered species, for
14 example, would, I mean if there is a Spotted Toad
15 or --

16 Q. Spadefoot Toad, isn't that one of them?

17 A. Yeah, or an owl or something. You
18 obviously cannot ruin or impact their -- their
19 shelter. I will say that this is an industrial site.
20 There is not really any -- you are welcome to come
21 out to the site sometime. It's pretty nice but
22 there's not a lot of, you know --

23 Q. Habitat?

24 A. -- habitat on the site other than our
25 employees.

1 MR. McNAMEE: Okay. That's all I have.

2 Thank you.

3 EXAMINER PARROT: Any redirect?

4 MR. PETRICOFF: No redirect, your Honor.

5 EXAMINER PARROT: Thank you. Do you want
6 to move your exhibit?

7 MR. PETRICOFF: Yes, your Honor. We
8 would move for admission of Ormet Exhibit 3.

9 EXAMINER PARROT: Any objections?

10 Hearing none Ormet Exhibit 3 is admitted.

11 (EXHIBIT ADMITTED INTO EVIDENCE.)

12 EXAMINER PARROT: Thank you very much,
13 Mr. Thompson.

14 Let's go off the record.

15 (Discussion off the record.)

16 MR. PETRICOFF: At this time, your Honor,
17 we would like to call to the stand David R. McCall.

18 (Witness sworn.)

19 EXAMINER PARROT: Be seated.

20 MR. PETRICOFF: Your Honor, I would like
21 to have marked now Ormet Exhibit 4, the direct
22 prepared testimony of David R. McCall.

23 EXAMINER PARROT: So marked.

24 (EXHIBIT MARKED FOR IDENTIFICATION.)

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DAVID R. MCCALL

being first duly sworn, as prescribed by law, was
examined and testified as follows:

DIRECT EXAMINATION

By Mr. Petricoff:

Q. Good afternoon, Mr. McCall.

A. Hello.

Q. Would you please state your name and
business address for the record.

A. My name is David Richard McCall. My
address is 777 Dearborn Park Lane-J, Columbus, Ohio.

Q. And, Mr. McCall, do you now have a copy
of what has been marked as Ormet Exhibit No. 4 with
you?

A. I do.

Q. And is that your direct prepared
testimony?

A. Yes.

Q. And was this prepared by you or under
your direction?

A. Yes.

Q. Are there any corrections or changes you
would like to make to this document?

A. No.

Q. If I were to ask you the same questions

1 today, would your answers be the same?

2 A. Yes.

3 MR. PETRICOFF: Your Honor, the witness
4 is available for cross-examination.

5 EXAMINER PARROT: Thank you.

6 AEP?

7 MR. NOURSE: Thank you, your Honor.

8 - - -

9 CROSS-EXAMINATION

10 By Mr. Nourse:

11 Q. Good morning, Mr. McCall. I have a quick
12 question about your testimony statement on page 3
13 where you are referencing the bankruptcy proceeding
14 saying that "The bankruptcy court order," on line 5
15 there, "specifically conditions the buyer's
16 obligation to take Ormet out of bankruptcy on an
17 amendment to the current unique arrangement." Do you
18 see that?

19 A. Yes.

20 Q. Okay. Now, just to clarify this
21 statement here, the -- under the proposed financing
22 that was submitted to the bankruptcy court, this is
23 something that Wayzata had proposed this -- you are
24 familiar with the so-called stalking horse agreement?

25 A. I am.

1 Q. Okay. So that was a condition of the
2 proposal to take Ormet out of bankruptcy, to -- to
3 amend the unique agreement, unique arrangement,
4 correct?

5 A. Yes. It's part of the plan of
6 reorganization.

7 Q. Okay. And so this is essentially the
8 last box to check to bring Ormet out of bankruptcy is
9 the amendment to the unique arrangement?

10 A. That's my understanding.

11 Q. And by these statements you're not
12 suggesting, are you, the PUCO in any way is obligated
13 to pursue the amendments that are being proposed?

14 A. No, sir.

15 Q. Okay. So it's up to the Commission at
16 this point based on this proceeding and the record we
17 are creating here to decide where the proposed
18 amendments should be adopted; is that your
19 understanding?

20 A. To the best of my understanding, yes.

21 MR. NOURSE: Thank you. That's all I
22 have, your Honor.

23 EXAMINER PARROT: OCC?

24 MS. GRADY: No questions, your Honor.

25 Thank you.

1 EXAMINER PARROT: OEG?

2 MR. BOEHM: No questions.

3 EXAMINER PARROT: IEU?

4 MR. DARR: No questions, your Honor.

5 EXAMINER PARROT: OMAEG?

6 MR. SIWO: No questions.

7 EXAMINER PARROT: Staff?

8 MR. McNAMEE: No questions.

9 EXAMINER PARROT: Redirect?

10 MR. PETRICOFF: No redirect. We would
11 move to admit Ormet Exhibit 4 into the record.

12 EXAMINER PARROT: Any objections?

13 Hearing none Ormet Exhibit No. 4 is
14 admitted.

15 (EXHIBIT ADMITTED INTO EVIDENCE.)

16 EXAMINER PARROT: Thank you very much,
17 Mr. McCall.

18 Let's go off the record.

19 (Discussion off the record.)

20 EXAMINER PARROT: Let's go back on the
21 record. At this point we are going to adjourn just
22 for a lunch break. We will reconvene at let's say
23 1:15. Thank you.

24 (Thereupon, at 12:10 p.m., a lunch recess
25 was taken until 1:15 p.m.)

1 Tuesday Afternoon Session,
2 August 27, 2013.

3 - - -

4 EXAMINER PARROT: Let's go back on the
5 record.

6 Mr. Petricoff.

7 MR. PETRICOFF: Thank you, your Honor.
8 At this time we would like to call to the stand James
9 Burns Riley.

10 (Witness sworn.)

11 MR. PETRICOFF: Your Honor, at this time
12 I would like to have marked as Ormet Exhibit No. 5
13 the direct prepared testimony of James Burns Riley.

14 EXAMINER PARROT: So marked.

15 (EXHIBIT MARKED FOR IDENTIFICATION.)

16 - - -

17 JAMES BURNS RILEY

18 being first duly sworn, as prescribed by law, was
19 examined and testified as follows:

20 DIRECT EXAMINATION

21 By Mr. Petricoff:

22 Q. Good afternoon, Mr. Riley.

23 A. Good afternoon.

24 Q. Please state your name and business
25 address for the record.

1 A. My name is James Burns Riley. My
2 business address is 43840 State Route 7, Hannibal,
3 Ohio 43931.

4 Q. And do you have with you a copy of the
5 document that has just been marked as Ormet Exhibit
6 No. 5?

7 A. Yes, I do.

8 Q. And is that your direct prepared
9 testimony?

10 A. Yes, it is.

11 Q. And are there any amendments or changes
12 you would like to make to that testimony at this
13 time?

14 A. Yes, sir. On page 12 where the -- at the
15 bottom of 11 "Has Ormet looked for alternative
16 liquidity sources?" I'm glad to say at this point
17 that as of last week, we were -- our financier of
18 Wayzata Partners provided an additional \$10 million
19 to the \$30 million DIP loan.

20 In addition to that, the actions of the
21 Public Utilities Commission last week providing the
22 \$5 million deferral of the July bill. The
23 combination of those two aggregating \$15 million
24 allowed us to continue to move forward.

25 Q. Okay. Had those -- had those two

1 occurrences, DIP financing and the Commission's
2 order, not taken place, what would have happened?

3 A. We would not have had adequate liquidity
4 to continue to order supplies and materials and would
5 have had to terminate operations.

6 Q. With that addendum if I were to ask you
7 the questions today that are shown in the -- in the
8 testimony, would your answers be the same?

9 A. Yes, sir.

10 Q. And this was testimony prepared by you
11 and under your direction?

12 A. That is correct.

13 MR. PETRICOFF: Your Honor, the witness
14 is available for cross-examination.

15 EXAMINER PARROT: Thank you.

16 AEP?

17 MR. NOURSE: Thank you, your Honor.

18 - - -

19 CROSS-EXAMINATION

20 By Mr. Nourse:

21 Q. Good afternoon, Mr. Riley.

22 A. Good afternoon, sir.

23 Q. Just on that last point, your correction
24 you made or your update you made on page 12, so was
25 part of the \$10 million additional financing that was

1 provided, was that applied to pay the July usage bill
2 that was billed in August? Excuse me.

3 A. Financing is fungible so it was part of
4 our liquidity that we paid our bills with, yes.

5 Q. And under the Commission's order from
6 last week with the deferral, partial deferral, I
7 guess --

8 A. Correct.

9 Q. -- Ormet had to come up with about \$3
10 million to bring the bill current at that time?

11 A. Slightly in excess of that, yes.

12 Q. Okay, okay. You were here earlier for
13 Mr. Tanchuk's testimony?

14 A. Yes, I was.

15 Q. Okay. And I believe he punted a couple
16 of things to which I'm sure --

17 A. I believe so.

18 Q. -- you will be happy to answer, right?
19 Okay. One of the questions I asked him about was the
20 AEP Exhibit No. 1 -- I'm sorry. Let me strike that.

21 One of the questions I asked him about
22 was a monthly operating report for the reporting
23 period July, 2013. It was filed in the bankruptcy
24 proceeding.

25 A. Yes, I recall.

1 Q. And you are familiar with that report?

2 A. Generally, yes.

3 Q. And Mr. Tanchuk had recited that the
4 report indicated year-to-date that the net
5 income/loss through July for 2013 was an 82.6 million
6 loss. Do you recall that?

7 A. I believe he said that, yes.

8 Q. Is that your understanding of what the
9 report provides?

10 A. If you would provide it to me, I would be
11 more than happy to look at it.

12 Q. All right. One moment. I think I had
13 one copy that I provided.

14 MR. NOURSE: Counsel, do you still have
15 that?

16 MR. PETRICOFF: No. I just have my own.

17 Q. All right. So the question I have is on
18 the second page of that document which is the
19 financial summary.

20 A. Yes.

21 Q. And you are familiar with that?

22 A. Yes, I am.

23 Q. And does it show an \$82.6 million loss
24 year-to-date through July of 2013?

25 A. It shows a gap loss of 82.7 million, yes.

1 Q. Okay. And then the cash flow for
2 operations year-to-date was what?

3 A. This shows a cash flow from operation --
4 used in operating activities of 30.5 million.

5 Q. Okay. Thank you. And if you need to
6 refer to this again, let me know but I just have a
7 couple more questions about that.

8 A. Sure.

9 Q. So those financial results that we just
10 went over, that reflects year-to-date several factors
11 including, I want your confirmation of this, No. 1,
12 the protections of the bankruptcy proceeding; is that
13 correct?

14 A. No.

15 Q. Okay. Please elaborate on what you mean.

16 A. The bankruptcy proceedings have actually
17 incurred an additional \$9 million.

18 Q. Okay. But Ormet didn't file the
19 bankruptcy to incur an additional \$9 million in
20 costs, right?

21 A. That's correct.

22 Q. And did Ormet file the bankruptcy to
23 obtain certain protections and to restructure
24 obligations and debts that it had?

25 A. Correct.

1 Q. Okay. And are any of those reflected in
2 the year-to-date operating loss?

3 A. Of the three major items, most of them do
4 not affect the P&L and there would have been a small
5 reduction at this point into the pension for two
6 payments.

7 Q. Okay. Now, the year-to-date financial
8 results that we've reviewed here, do they reflect
9 the -- the effect of the deferrals from last fall?

10 A. No, they do not.

11 Q. Okay. Do they reflect the bankruptcy
12 financing? I think you referred to it as the DIP
13 financing.

14 A. Not in the numbers you asked me to look
15 at.

16 Q. Okay. Wayzata had provided an additional
17 financing or Wells Fargo and Wayzata?

18 A. Yes.

19 Q. For what, 30 -- 30 some million?

20 A. Wayzata had offered or given a DIP
21 financing of 30 million of which currently there is
22 \$27,250,000 drawn.

23 Q. Okay. But you're saying that additional
24 financing is not reflected in the financial results
25 that we just reviewed?

1 A. Not in the numbers at the level you are
2 talking about.

3 Q. Okay. So that would mean there's further
4 losses --

5 A. No.

6 Q. -- based on that additional data?

7 A. No. It's the other way around. That's
8 what reduced that \$30 million cash flow, usage and
9 funded.

10 Q. So that brought you back to even.

11 A. Basically, yes. Basically, yes.

12 Q. So without the bankruptcy financing you
13 have the -- you have the \$82 million loss,
14 \$82.6 million loss, and the \$30 million cash --
15 negative cash flow?

16 A. Yes, and there's additional noncash
17 charges that are in that 80 plus million dollar
18 number. It did not affect cash.

19 Q. Okay. And the last area I wanted to ask
20 you about, these financial results do reflect the
21 discounts that have been received or the existing
22 unique arrangement through July, correct?

23 A. At the operating cash flow level, yes.
24 At the pretax loss, no. It's only partial.

25 Q. Okay. Now, the -- another question I

1 believe I asked Mr. Tanchuk that he referred to you
2 was we were talking about the LME pricing and the
3 effect on earnings and cash flow, and I asked him to
4 give an example or to provide a response to the
5 question of an example of what does a \$50 million --
6 excuse me, what does a \$50 drop in the LME translate
7 into in terms of earnings impact or cash flow impact.

8 A. As I believe Mr. Tanchuk discussed, our
9 process has been to preprice materials. Currently we
10 are not prepriced. If we were, it wouldn't have a
11 different effect. But to use your example,
12 Mr. Nourse, if we're not prepriced and the price goes
13 down \$50, it's virtually a dollar-for-dollar
14 reduction in the income of the company.

15 Q. For the period that's affected by that
16 reduction.

17 A. Correct, correct.

18 Q. All right. Okay. I'm sorry. So to
19 clarify that, can you -- I guess you would have to
20 apply the volume to get to -- you say dollar for
21 dollar. A \$50 price reduction in LME doesn't mean
22 Ormet losses \$50; it means Ormet losses what?

23 A. \$50 per ton shipped.

24 Q. Per ton?

25 A. Again, if nothing has been prepriced.

1 Q. Right. So give us an example of how that
2 would affect a recent quarter of Ormet, please.

3 A. Oh, it had its effect. The price for
4 year-to-date is -- on the LME is \$1,900. We shipped
5 100,000 tons during that period of time,
6 approximately. So \$50 on 100,000 tons would have
7 contributed then an additional \$5 million in losses
8 or profit.

9 Q. Let me ask you a few questions about your
10 written testimony --

11 A. Certainly.

12 Q. -- if you have that. Page 1 at the
13 bottom where you talk about the 1,000 employees, is
14 that -- is that in connection with a six potline
15 operation level?

16 A. Correct.

17 Q. Page 3 you're talking about the existing
18 special arrangement. Is it your understanding that
19 Ormet's asking -- one of the things they are asking
20 for here is permission to shop for power, correct?

21 A. That is my understanding.

22 Q. And that's not permitted under the
23 existing agreement, is it, to your understanding?

24 A. I do not recall.

25 Q. Okay. You state on line 6, page 3, "AEP

1 Ohio agreed to supply Ormet, and Ormet agreed to
2 purchase from AEP, the electricity necessary to meet
3 Ormet's needs." Do you see that?

4 A. Yes, I do.

5 Q. Okay. And is that your understanding,
6 that AEP Ohio is to be the exclusive supplier for
7 the -- under the existing agreement?

8 A. It was my understanding at the time the
9 unique arrangement was entered into that AEP and --
10 and Ormet agreed to AEP would supply under that
11 unique arrangement.

12 Q. Was that a voluntary agreement, or is
13 that a result of the Commission's order? Do you
14 know?

15 A. I think at the end of the day the unique
16 agreement or unique arrangement is a function of the
17 Public Utilities Commission.

18 Q. So that's your understanding that that's
19 what the PUCO decided.

20 A. Correct.

21 Q. Okay. Now, at the bottom of page 3
22 you're talking about these -- the existing agreement,
23 again, these annual discount eligibility for Ormet to
24 reduce its electricity bill and you list the
25 various -- on lines 21, 22, the various annual caps,

1 I guess.

2 A. That is correct.

3 Q. Fair? Okay. Now, you state at the end
4 of that sentence "if certain LME prices were not
5 achieved." So just to clarify so it's your
6 understanding if -- if certain LME prices were
7 achieved, that those -- those discounts would
8 actually be reduced, correct?

9 A. That is correct.

10 Q. Meaning if there -- the -- meaning that
11 there were LME trigger points that would -- that
12 would cause Ormet to pay back or reduce the delta
13 revenues that were the cap levels?

14 A. That were targets, yes.

15 Q. And is it your understanding from the
16 last case, first of all, you were involved in the
17 2009 proceeding, correct?

18 A. That is correct.

19 Q. And in your same capacity for Ormet.

20 A. That is correct.

21 Q. Okay. And so was it your understanding
22 that under the existing agreement that there is an
23 expectation that some of those -- some of those
24 trigger points would be met and that the delta
25 revenue would be reduced versus being at the capped

1 level?

2 A. I believe I recall that forward forecasts
3 at that time would have shown at least some partial
4 repayment.

5 Q. Okay. Now, let me ask you to turn to
6 page 5 of your testimony. You know, in the bottom
7 half of the page you are getting into this again,
8 these price triggers, LME price triggers, that would
9 cause some -- some payback or reduction of the -- of
10 the delta revenue, correct?

11 A. That is correct.

12 Q. And these -- now, you are -- in this
13 section you're talking about the new proposal,
14 correct?

15 A. That is also correct.

16 Q. Okay. And you're familiar with Ormet
17 Witness Vazquez who deals with the LME pricing, his
18 testimony --

19 A. Yes, yes.

20 Q. -- in this case? Okay. Now, is
21 Mr. Vazquez expecting LME prices to -- or predicting
22 or forecasting LME prices that would trigger these --
23 these levels?

24 A. I believe its most recent forecast had
25 shown that it was close on the 2015 period.

1 Q. Close as in above or below the trigger?

2 A. It was below.

3 Q. Yeah. So he's not predicting that these
4 triggers will be -- will be triggered, I guess.

5 A. His current report, yes.

6 Q. Okay, okay. Let me ask you to turn to
7 page 7. Okay. So you're quoting here under the
8 heading "Emergency Relief Part B." I guess I don't
9 know, is this -- is this an actual quote of the
10 petition?

11 A. I believe it's a direct pull from the
12 petition.

13 Q. Okay. So down in line 25, you
14 reference -- let me back up a little bit.

15 In line 24 you reference the 45.89 per
16 megawatt-hour fixed rate. That's one of the
17 components of the petition in this case, correct?

18 A. That is correct.

19 Q. And so then you say that the -- there
20 will be a different rate paid during the second
21 portion of the 2013 that would be less than the
22 45.89, correct?

23 A. Which may be less.

24 Q. Okay. You say may be. The petition says
25 may be.

1 A. Right.

2 Q. In fact, have you calculated what that
3 will be?

4 A. As of the end of July, yes, I have.

5 Q. And would it, in fact, be less?

6 A. Slightly, yes.

7 Q. And what's the calculation you made?

8 A. I don't remember the exact numbers, but
9 it was heavily influenced by the FAC charge in the
10 second quarter.

11 Q. Okay. And I do have a discovery request
12 here I would like to ask you about. We don't
13 necessarily need to make it an exhibit.

14 MR. NOURSE: Mr. Petricoff, do you have
15 the Ormet's First Set of Responses to AEP and its
16 Interrogatory No. 5?

17 MR. PETRICOFF: I do if you will give me
18 a moment here to dig it out.

19 MR. NOURSE: Just ask that you show it to
20 the witness to refresh his recollection. I would
21 assume he prepared the response or is aware of it.

22 MR. PETRICOFF: 1.5?

23 MR. NOURSE: Interrogatory 5 which was
24 part of the First Set.

25 A. Yes.

1 Q. Do you recall now what the rates were
2 that you calculated for this reference?

3 A. Yes, assuming it stayed flat for the
4 whole year, the balance of the year.

5 Q. Well, okay. My question is in order to
6 achieve the 45.89 as that's being requested, I
7 believe in the discovery response you've made a
8 calculation for two potlines and four potlines.

9 A. Correct.

10 Q. And you indicate what those rates will
11 be.

12 A. I have.

13 Q. Thank you. Go ahead and indicate in the
14 record what they are.

15 A. The two potlines I estimate it to be
16 \$42.17, and at four potlines I estimated \$43.18
17 without any other additional movement.

18 Q. Okay. Thank you. Okay. And then,
19 Mr. Riley, on page 8 of your testimony you're
20 referencing another provision in the petition here,
21 part D.

22 A. Part D?

23 Q. D as in David.

24 A. Yes.

25 Q. And you're referencing the 4.5 million

1 per month in 2014. Do you see that?

2 A. Yes, I do.

3 Q. And that's during the period which
4 Ormet's seeking to shop or obtain generation service
5 from a CRES provider?

6 A. That's correct.

7 Q. Okay. And what was the rate that was
8 used to develop the \$4.5 million proposal for 2014?

9 A. I'm sorry, which rate?

10 Q. What was the effective generation rate
11 that you used to justify or calculate the why you
12 need 4.5 million per month?

13 A. What I used in the calculations was \$49
14 delivered.

15 Q. Okay. And does that include riders and
16 distribution charges?

17 A. Yes, for the first four lines.

18 Q. For the first four lines?

19 A. Correct.

20 Q. Okay. And what's your answer with the
21 additional two?

22 A. The additional two we were requesting an
23 additional relief for shopping credit for those last
24 two lines.

25 Q. Okay. So that would be an additional

1 discount. Does that mean you used a higher effective
2 rate for the other two lines?

3 A. No. Used the same number.

4 Q. Okay. But it would be a lower net rate
5 for Ormet --

6 A. Correct.

7 Q. -- for the final two potlines.

8 A. That is correct.

9 Q. So after we applied the discount to your
10 \$49 assumed rate, what's the net after discount rate
11 that Ormet would pay?

12 A. I believe at full operations it was close
13 to \$40.

14 Q. You're saying that 4.5 million per month
15 would only be about \$9 per megawatt-hour?

16 A. No. In total megawatt-hours, yes, I
17 believe that's correct. 4.8, it's more like 12
18 something, Steve.

19 Q. You're not taking the 4-1/2 and only --
20 and dividing by 6 --

21 A. I'm --

22 Q. -- or dividing by 4.

23 A. No. I am dividing it by the total
24 volume.

25 Q. By six potlines.

1 A. Correct.

2 Q. Okay, okay. So are you saying that
3 the -- you said \$12?

4 A. I believe.

5 Q. So you're saying \$37 is your after
6 discount?

7 A. On that, yes.

8 Q. Okay. Effective rate --

9 A. The other portion was 40. It was 49 less
10 the 9 dollar discount so it brought it out somewhere
11 between 39 and 40 dollars.

12 Q. Let's make sure we keep the record clean.
13 Let me finish my question before you answer it.

14 A. Okay.

15 Q. With the additional discount for the
16 other two potlines, then what would be then the net
17 generation rate -- all in generation rate be that
18 Ormet would pay for those other two potlines?

19 A. \$40.

20 Q. I thought you --

21 A. Exclusive of the discount, you said
22 without discount.

23 Q. Let's add all the discounts that apply.
24 I am asking for the effective rate that Ormet would
25 actually pay, at least on paper what they would be

1 required to pay.

2 A. A little less than 30, I guess,
3 mathematically.

4 Q. Less than 30?

5 A. Correct.

6 Q. As in 29 or 28 or 29 and change?

7 A. Less than 30.

8 Q. Okay. That's a good range. All right.
9 So let me ask you -- then the next question I have is
10 about under the category of "Non-Emergency Relief."

11 A. Yes.

12 Q. And it starts at the bottom of page 8
13 under the heading "Amendment clarifying repayment of
14 the deferral."

15 A. Yes.

16 Q. Now, I guess the first question when you
17 use the term "clarifying repayment of the deferral,"
18 to be clear Ormet is proposing to modify the
19 repayment of the deferral from last fall, correct?

20 A. That is correct.

21 MR. NOURSE: Okay. And if you don't
22 mind, Mr. Petricoff, do you still have the discovery
23 handy? I actually had another question about Set 1.

24 Q. And this time I want to ask about the
25 Request for Admission No. 5. Okay. Mr. Riley, if

1 you could review Request for Admission No. 5 and the
2 response.

3 A. Yes.

4 Q. This is on the same topic we were just
5 talking about, the modification to the deferral
6 payback. And Ormet's answer says "If the Commission
7 approves Ormet's motion to amend, the risk of
8 nonpayment to AEP Ohio is significantly less, if not
9 totally eliminated." Do you see that?

10 A. Yes.

11 Q. Okay. While I like the sound of that,
12 I'm not sure I agree so I would like you to explain
13 why you said that.

14 A. Given the fact that the current unique
15 arrangement modification required repayment
16 commencing on January 1, 2014, and continuing through
17 a 17-month period through the end of May of 2015, by
18 spreading it out in the period of time when we hope
19 to be restarting our lines, this gives additional
20 liquidity and, therefore, provides, I believe, a
21 stronger opportunity for repayment.

22 Q. Okay. Now, do you recall or do you know
23 whether AEP Ohio receives a carrying charge for this
24 deferral?

25 A. I do not believe so.

1 Q. Okay. Would you agree that there is a
2 real economic cost to AEP Ohio of providing an
3 interest free loan to Ormet, Mr. Riley?

4 A. I guess I don't look at it that way.

5 Q. Okay. Are you saying you don't believe
6 there is a cost to AEP Ohio?

7 A. No. I don't believe it's an interest
8 free loan.

9 Q. Okay. Well, what I asked you was whether
10 there was a carrying charge, and you agreed there was
11 not, correct?

12 A. I said I don't look at it as being a
13 loan.

14 Q. I am going back two questions ago, and I
15 asked you if your understanding is whether AEP Ohio
16 collects a carrying charge on these deferrals.

17 A. Right. And I said, no, that's correct.

18 Q. Okay. And yet are you acknowledging or
19 not acknowledging that there is a real economic cost
20 for AEP Ohio to defer payments over a period of time
21 that were for services rendered in the past?

22 A. Since I don't view it as a loan I'm not
23 so sure what that answer is.

24 Q. You are the financial officer.

25 A. I am.

1 Q. And do you give any of your suppliers
2 indefinite deferrals without --

3 A. Not indefinite but we have given extended
4 terms, yes.

5 Q. Okay. Are you in the practice of doing
6 that?

7 A. Not recently.

8 Q. Okay. Would you agree -- would you
9 expect your suppliers to come up with their own
10 financing if they can't pay their bills on time?

11 A. I believe that's a part of the
12 consideration.

13 Q. Okay, okay. So you had mentioned earlier
14 the -- the entry from last week that granted a
15 partial bill deferral for August and September for
16 Ormet, correct?

17 A. The August deferral, yes.

18 Q. And it was August and September, correct?

19 A. We have not seen the benefit of
20 September.

21 Q. I didn't ask you that.

22 A. Yes, it was passed to give that, correct.

23 Q. Okay. So -- so your understanding of
24 that order is that there is a -- there is a certain
25 amount of the August bill that was authorized for

1 deferral and a certain amount for the September bill
2 that was authorized for deferral?

3 A. Yes.

4 Q. And, first of all, the August bill
5 relates to July usage, correct?

6 A. That's correct.

7 Q. And the September bill relates to August
8 usage.

9 A. That's not my understanding.

10 Q. Okay. Well, let's get our terminology
11 straight here.

12 A. Please.

13 Q. Why don't you correct me. What's
14 incorrect about that?

15 A. It is my understanding that it is the
16 August payment of the July bill at a \$5 million
17 deferral. It was also my understanding since you had
18 previously asked that the discounts had lapsed at the
19 end of August, we had consumed all of them, that the
20 \$5-1/2 million in September was, in fact, for the
21 September bill, not an August bill.

22 Q. Okay. But when we talk about the
23 September bill, that's the bill you receive in
24 September for August usage.

25 A. No, that's not correct. I was talking

1 about the September -- the bill for September's
2 usage.

3 Q. Okay. Do you have the entry that came
4 out last week?

5 MR. NOURSE: Do you have a copy of that
6 that you can provide for the witness?

7 MR. PETRICOFF: I don't have a copy of
8 the entry.

9 MR. NOURSE: You do not?

10 MR. PETRICOFF: I do not.

11 MR. NOURSE: Okay. All right. Well,
12 I've got one. I guess we'll have to share. You can
13 take a look at that.

14 MR. PETRICOFF: Your Honor, if, in fact,
15 the questions are going to be to interpret this
16 entry, I am going to object on the grounds that --
17 that the witness is not a lawyer and is not in a
18 position to give legal interpretations. Having said
19 that --

20 MR. NOURSE: I am not asking for a legal
21 interpretation, your Honor. I am asking his working
22 understanding. We have been chatting about this in
23 connection with his testimony, and I am trying to
24 clarify his understanding of how this is working.

25 EXAMINER PARROT: The objection is

1 overruled. Please proceed, Mr. Nourse.

2 Q. (By Mr. Nourse) So that caveat applies to
3 all my questions, Mr. Riley.

4 A. Certainly.

5 Q. Can you turn to page 6 of the entry in
6 paragraph 19.

7 A. Yes.

8 Q. Do you see where it says "Ormet's
9 requests for deferred payment arrangement should be
10 granted to the extent set forth in this Entry"?

11 A. Yes.

12 Q. And the second sentence, do you see where
13 it says "Ormet may defer payment of \$5 million for
14 its bill due in August, 2013"?

15 A. Yes.

16 Q. And then it goes on to say "up to 5.5
17 million for its bill for September"?

18 A. It goes further to say "consistent with
19 what our ask was." Our ask was for 5.5 million for
20 September through December per month.

21 Q. Okay. And in paragraph 20 it goes on to
22 talk about the deferral and say in the first sentence
23 "to defer incurred costs not recovered from Ormet's
24 bill" -- "billings due in August and September, 2013,
25 not to exceed 5 million for August and 5.5 million

1 for September, 2013." Do you see that?

2 A. Yes.

3 Q. Do you further see down in the middle of
4 paragraph 21 where it says "Further, although the
5 Commission authorizes Ormet to defer a limited
6 portion of its bills for August and September, 2013,
7 nothing in this entry relieves Ormet of any
8 obligation to pay the non-deferred portion of its
9 electric bills by the applicable due date."

10 A. I believe you are reading it correct,
11 yes.

12 Q. Okay. So your -- your understanding from
13 that entry -- can we go back and pick up where we
14 left off?

15 A. Certainly.

16 Q. With that is that -- explain what your
17 understanding is with respect to the September bill.

18 A. September bill for September usage?

19 Q. The September bill as we covered earlier
20 is covering August usage.

21 A. My understanding from this is that there
22 would be no change. What currently exists which is
23 in the August bill, assuming that the LME did not go
24 out of sight here in the next week or so, that we
25 would receive the \$5.5 million credit under the

1 \$44 million as laid out in the current unique
2 arrangement so that the bill would be gross number
3 minus 5.5 million which we would receive, I assume,
4 in early September and we would pay it 21 days hence.

5 Q. Right. Okay. So what happens then
6 with -- with the September usage that would be billed
7 in October absent any further orders from the
8 Commission?

9 A. It was my understanding from reading
10 paragraph 19 that we would receive a \$5-1/2 million
11 discount. If AEP believes that that should be
12 applied to August, I would be more than happy to take
13 it.

14 Q. Well, what I am asking you, sir, is
15 whether based on what came out during my
16 cross-examination of your testimony, we are trying to
17 pin this down, whether it's your belief that the
18 Commission's entry dealt with August and September
19 bills only or whether you believe it has some ongoing
20 effect pending further orders in this case.

21 A. A couple of issues. I believe that there
22 is a lack of clarity here between what the billing
23 period refers to and when the bill is received. So I
24 draw a very fine line that the July bill -- or the
25 bill that was received for July's service in early

1 August received a \$5 million deferral which I paid
2 last week on that basis. I believe under paragraph
3 19, again, that there is no impact on the August bill
4 from what is there. I believe the impact is
5 September, and I'm not too sure, if I don't read it
6 correctly, that if the proceedings go beyond that
7 period of time, that that \$5-1/2 million could apply
8 to subsequent periods. And that's my interpretation.

9 Q. Okay. So -- so Ormet -- if there is no
10 further orders pending, any further orders when the
11 September usage bill is sent out in October, which is
12 the October bill --

13 A. Right.

14 Q. -- you don't believe Ormet's obligated to
15 pay the bill in full? You would apply a \$5-1/2
16 million discount?

17 A. That is my understanding.

18 Q. Okay. All right. It's good to know.
19 Thank you.

20 Okay. Mr. Riley, you're familiar with
21 the -- the -- the aspects of the existing contract
22 that allow Ormet to forego prepayment of its AEP bill
23 and to forego deposit obligations that would
24 otherwise apply?

25 A. I'm familiar with the unique arrangement

1 that provided for that, yes.

2 Q. And that was -- that was a big issue in
3 the last case, was it not?

4 A. It was very important to Ormet, yes.

5 Q. Okay. And what was the reason why it was
6 so important?

7 A. Because prior to that we had a
8 significant deposit with AEP.

9 Q. So was it that you really didn't feel
10 like you could afford that?

11 A. No. It was part of the unique
12 arrangement as published.

13 Q. Okay. But you indicated that you -- you
14 would have an adverse impact on the cash flow and
15 would take away from Ormet's abilities to succeed
16 during the term of the unique arrangement?

17 A. It was the other way around. By
18 eliminating the deposit it provided a source of
19 funds.

20 Q. Right. And so imposing a deposit is
21 something and prepayment is something Ormet proposed
22 in that proceeding based on the cash flow
23 consideration, and you didn't feel like you could
24 afford to do that.

25 A. AEP agreed with us, yes.

1 Q. Okay. Well, we'll let the record reflect
2 that but what it is -- but my question for you is are
3 you still saying today that Ormet can't afford to
4 prepay or to have a deposit as we move into this new
5 agreement or are you okay with doing that?

6 A. Am I okay with what?

7 Q. Prepayment and deposit.

8 A. No, we are not.

9 Q. Why?

10 A. Same issues as always.

11 Q. Now, as -- as Ormet goes to shop for
12 power under its proposal, is it your expectation that
13 CRES providers would provide service without security
14 arrangements in place?

15 A. I'm not knowledgeable in that area, no.

16 Q. So you haven't checked into that at all?

17 A. No, I have not.

18 Q. Do you have an expectation as to whether
19 there would be a deposit or prepayment required?

20 A. As I had demonstrated in the plan I put
21 forward, there was no deposit.

22 Q. So you're not planning on providing any
23 security? That's not part of your plan?

24 A. As Ormet Corporation, no.

25 Q. Is it your understanding Wayzata or

1 somebody else would step up and do that?

2 A. No knowledge.

3 MR. NOURSE: Okay. I think that's all
4 the questions I have. Thank you, Mr. Riley.

5 EXAMINER PARROT: OCC?

6 MR. BERGER: Thank you, your Honor.

7 - - -

8 CROSS-EXAMINATION

9 By Mr. Berger:

10 Q. Good afternoon, Mr. Riley. My name is
11 Tad Berger. I am with the Office of Ohio Consumers'
12 Counsel.

13 A. Good afternoon, Mr. Berger.

14 Q. Mr. Riley, on page 6 of your testimony,
15 you say that terminating the unique arrangement three
16 years early and advancement of the previously
17 authorized economic development discounts by three
18 years should have no effect on the economic
19 development rider obligation of retail customers of
20 AEP Ohio in the aggregate. Do you see that?

21 A. Yes.

22 Q. You do recognize that by spreading out
23 this amount over a larger number of years as is the
24 case in the current arrangement, however, it requires
25 the company to stay in business to get that discount.

1 A. That's correct.

2 Q. You are aware -- you also -- would you
3 also recognize when the company moves to a
4 self-supply situation, there's generation capacity
5 that AEP holds that may lose value in the market if
6 AEP is -- no longer has Ormet as a customer?

7 MR. PETRICOFF: Objection. There is
8 nothing in the record that would provide the basis
9 for the claim that AEP is going to lose money if
10 Ormet leaves. There are customers and an open
11 market.

12 MR. BERGER: I am asking him if that
13 would be a fair supposition.

14 MR. PETRICOFF: There must be a
15 foundation for the question.

16 EXAMINER PARROT: Can you reread to me,
17 please, Karen.

18 (Question read.)

19 MR. PETRICOFF: I would just renew by
20 saying the only way that would be true is if Ormet
21 was being charged above market rates in the future,
22 whatever the future market rates will be.

23 MR. BERGER: Can the witness answer the
24 question? I am not asking for an answer from
25 Mr. Petricoff.

1 EXAMINER PARROT: Do you have any other
2 response before I rule?

3 MR. BERGER: No, I don't.

4 EXAMINER PARROT: I am going to allow the
5 question.

6 A. I'm not qualified to be able to say what
7 AEP will or will not be able to do if Ormet is not
8 there. Maybe it would be the decremental power. It
9 would be more expensive. So I can't really answer.
10 It may be their highest cost of operation if Ormet
11 doesn't exist would not be there. So I really can't
12 answer that.

13 Q. You would agree that there would be a
14 reduction in demand in the service territory that AEP
15 serves by approximately 540 megawatts?

16 A. Not if somebody else picks it up.

17 Q. Well, unless somebody else picks it up.

18 A. Correct. If somebody else picks it up,
19 then there is an overage.

20 Q. I am talking about the demand situation.
21 All things being equal, Ormet leaves the market.

22 A. Since a significant portion of the power
23 is now on the market, AEP can -- could compete in
24 that the same as they do for others.

25 Q. You would agree that customers would lose

1 Ormet's contribution to certain riders thus causing
2 those riders to be spread out over a small -- smaller
3 number of volumes if Ormet were no longer a customer.

4 A. If Ormet was no longer a customer and
5 that volume was not picked up by somebody else, then
6 mathematically that would be correct.

7 Q. Okay. So in your statement on page 6 --

8 A. Uh-huh.

9 Q. -- you don't acknowledge that that is
10 a -- has an impact on customers, do you?

11 A. Not if they are able to provide power to
12 others.

13 Q. You're assuming there would be additional
14 power coming into the marketplace to replace the
15 Ormet demand and Ormet payment of those riders; is
16 that correct? Is that your answer?

17 A. I'm sorry. Please repeat.

18 Q. Yes. You just answered my question but
19 by saying if there was -- if there was additional
20 volumes to take basically the Ormet supply that they
21 were contributing to the riders.

22 A. Off of AEP, yes.

23 Q. Yes. That's an assumption you are making
24 that there might be --

25 A. I have no knowledge what demands are on

1 AEP.

2 Q. Okay. All I am asking you is you're
3 making an assumption that the rider contribution that
4 Ormet currently makes would be replaced by somebody
5 else?

6 A. That's correct.

7 Q. Okay. And you don't specifically
8 recognize, do you, that a -- an impact on AEP from
9 Ormet shopping during 2014 and '15, do you?

10 A. I don't recognize?

11 Q. Yes.

12 A. I have not built into anything I've done,
13 no.

14 Q. Okay. You're aware, however, that AEP
15 says there would be significant impact on revenues to
16 the -- to AEP if Ormet went shopping beginning in
17 January of 2014?

18 A. Only if they couldn't replace the power
19 to someone else.

20 MR. BERGER: Counsel, could you provide a
21 copy of OCC Exhibit 1 to Mr. Riley, if you have it
22 there?

23 Q. Would you turn to page 12 -- to 13 for
24 the response to OCC Interrogatory No. 65. And in
25 that question part B asks "What does the price have

1 to return to in order to enable an increase in
2 employment?" Do you see that?

3 A. Yes.

4 Q. And do you see your answer there? Would
5 you read your answer there on page 13.

6 A. In item B or both?

7 Q. Just part B.

8 A. Part B "It is anticipated that with a
9 restructured Balance Sheet and the full realization
10 of the requested relief from the PUCO, the LME price
11 would have to be approximately \$2,200 per metric
12 ton."

13 Q. Is that -- is that your testimony -- is
14 that your statement?

15 A. Yes, it is.

16 Q. And this would be -- what would be
17 required to return for -- for Ormet to begin
18 operating all six potlines; is that correct?

19 A. That is what I have said here, yes. Now,
20 let me clarify because Mr. Tanchuk said very clearly
21 even in periods where the average price for the year
22 is low, there are normally periods of time when it's
23 higher. This year was somewhat of an anomaly. We
24 have been able to price in April, May, going out to
25 the future so that even though we could see a lower

1 number than 2,200 for a year, we may see a number
2 that we could lock in that would achieve the 2,200,
3 at which time we would enter into restarting the last
4 lines.

5 Q. When you say you could lock in that
6 price, you would make a bid in the futures market?

7 A. No. We preprice with our customers. Our
8 commercial arrangements allow us to do that which
9 allows us to fix a price going out as Mr. Tanchuk
10 said anywhere from one to three years.

11 Q. And when was the last time that you were
12 able to preprice that at that level?

13 A. I think it was '11.

14 Q. 2011?

15 A. Yes.

16 MR. BERGER: Thank you, Mr. Riley.
17 That's all I have.

18 EXAMINER PARROT: OEG?

19 MR. BOEHM: Just a few.

20 - - -

21 CROSS-EXAMINATION

22 By Mr. Boehm:

23 Q. Good afternoon, Mr. Riley. My name is
24 David Boehm. I'm with the Ohio Energy Group. I just
25 have a few questions for you.

1 A. Certainly.

2 Q. On page 4 you of your testimony.

3 A. Yes.

4 Q. I have to -- I have to confess that I am
5 confused by your answer to question 7, Mr. Riley,
6 which is "Why does Ormet need a special arrangement
7 for electric service from Ohio Power?"

8 Now, I'm going to characterize this
9 because I don't want to take the time to read the
10 whole thing, and you tell me if I've left something
11 out. As I read the first paragraph, you are
12 essentially saying that Ormet like all aluminum
13 smelters has a very high load factor 24 hours a day,
14 et cetera, et cetera.

15 And then you say, "Thus, even industrial
16 tariff rates such as Ohio Power" -- "Power's GS-4 do
17 not match the load factors of aluminum smelters and
18 thus do not capture the true cost of service for such
19 constant load facilities. The unique load factor of
20 the Hannibal, Ohio, facility was part of the basis
21 for the Unique Arrangement which designed rates
22 pursuant to Ohio Revised Code Section 4901:1-38-05."
23 Do you see all that?

24 A. Yes, I do.

25 Q. The second part of your question

1 essentially -- answer essentially says why you can't
2 like most aluminum smelters really use interruptible
3 rates.

4 A. Correct.

5 Q. Because you can't -- you can't stand the
6 interruption. Your pots are full. Are you saying,
7 Mr. Riley, that you believe that the GS-4 rate of
8 Ohio Power's tariff does not accurately reflect the
9 true cost of service to -- to your smelter?

10 A. It is my belief that the GS-4 rate does
11 not adequately cover an operation with a load factor
12 that's 98, 99 percent.

13 Q. And have you or anybody at your request
14 conducted a class cost of service study --

15 A. I have not.

16 Q. -- for GS-4?

17 A. I have not.

18 Q. And explain to me, if you will, how the
19 part about interruptible power rates, how that has to
20 do with a need for a special arrangement.

21 A. Well, it's because, as you said, I came
22 from the steel industry where we took advantage of
23 interruptible rates. We can't do the same thing in
24 the aluminum industry. So, therefore, even though
25 there are provisions that would allow that to happen

1 Ormet cannot avail themselves to those opportunities.

2 Q. But essentially Ormet's case here is a --
3 an economic development case.

4 A. That is correct.

5 MR. BOEHM: Thank you, Mr. Riley. That's
6 all the questions.

7 EXAMINER PARROT: IEU?

8 MR. DARR: Thank you, your Honor.

9 - - -

10 CROSS-EXAMINATION

11 By Mr. Darr:

12 Q. Are you aware of any smelters in the
13 United States that have, in fact, gone to an
14 interruptible rate?

15 A. It could -- no, I am not aware.

16 Q. The business plan that you're sponsoring
17 in this proceeding and the modifications that are
18 contained in the application again assume that you
19 are going to contract with a third party for power
20 for 2014 through the time that you initiate
21 self-generation, correct?

22 A. That is correct.

23 Q. And we've just talked about the various
24 delivered prices that you have used to calculate and
25 those range someplace between 30 or a little south of

1 30 dollars per megawatt-hour to about 40 dollars a
2 megawatt-hour, correct?

3 A. Yes.

4 Q. You currently do not have an agreement
5 with a CRES provider to provide electricity at the
6 Hannibal plant for '14 -- for 2014 or 2015, correct?

7 A. That is correct.

8 Q. Going back to a question that Mr. Nourse
9 asked you, the current arrangement provides at least
10 for some period of time for Ohio Power to serve as
11 the supplier under the GS-4 tariff minus a discount,
12 correct?

13 A. Yes.

14 Q. Did you go back as part of your
15 preparation for this hearing to look at the
16 discussion in the entry on rehearing or the precourt
17 decision as to the extent of the exclusivity or lack
18 of exclusivity of that arrangement?

19 A. I did not.

20 Q. And it's fair to say under the current
21 arrangement there has not been any payments towards
22 the delta revenue that is sometimes referred to as
23 the negative delta revenue that has accrued under the
24 current special arrangement.

25 A. That is correct.

1 Q. And that's because the metal price has
2 not approached the current trigger of \$2,850.

3 A. 2,805, yes.

4 Q. 2805, excuse me. One of the reasons I
5 became a lawyer because I have an innate ability to
6 reverse numbers. Likewise it's fair to say that
7 Ormet at this point has not issued an RFP for offers
8 to supply electric service; is that also correct?

9 A. To the best of my knowledge, no.

10 Q. Well, Mr. Tanchuk and I had a moment like
11 this earlier today. Is it fair to say there are no
12 outstanding RFPs for the provision of electric
13 service?

14 A. To the best of my knowledge, no.

15 Q. Currently your company is -- and when I
16 am referring to your company, I am referring to the
17 Ormet entities, are making reports on a monthly basis
18 concerning the financial status of the Ormet
19 entities.

20 A. That's correct.

21 Q. And earlier in the discussions that you
22 had with Mr. Nourse, you identified the report for
23 July which was filed on August 20, 2013, correct?

24 A. Yes.

25 Q. And in that report specific to -- well,

1 if I may, we may as well mark this as an exhibit.

2 MR. DARR: If I may, I would like to have
3 this marked as IEU Exhibit No. 1.

4 EXAMINER PARROT: You may.

5 (EXHIBIT MARKED FOR IDENTIFICATION.)

6 Q. Sir, do you have in front of you what has
7 been marked as IEU Exhibit 1?

8 A. Yes.

9 Q. Can you identify that for us, please?

10 A. This is the monthly filing with U.S.
11 Trustee associated with the Ormet entities bankruptcy
12 proceedings.

13 Q. And, if you would, please, turn to page 7
14 of that report. And at the top of the page I have,
15 if I've identified it correctly, it reads
16 "Consolidating Statement of Income Debtor-in-
17 Possession July, 2013."

18 A. Yes.

19 Q. Now, this breaks down for each of the
20 various companies in bankruptcy the losses associated
21 with the month of July. Am I correct on that?

22 A. That is correct.

23 Q. And for purposes of Ormet Primary
24 Aluminum Corp., the lose in July was over -- was
25 \$4.652 million; is that correct?

1 A. The P&L loss, yes.

2 Q. And could you explain what you mean by
3 the P&L loss.

4 A. There are many charges in the monthly
5 statements, and specifically as we go through this
6 period of time, that reflect on cash charges. Two of
7 the more significant ones are with the low pricing on
8 aluminum. We have a marked market equivalent to
9 lower cost of market, and we continue to write down
10 our inventories under that basis. And then
11 secondarily the other issue is we are writing off
12 over time the loss that was incurred in 2008 on our
13 pension assets through other comprehensive income.

14 Q. On the next page, page 8 of this exhibit,
15 IEU Exhibit No. 1, we see a year-to-date
16 consolidation, correct?

17 A. Yes.

18 Q. And is this also on the what you
19 described P&L basis?

20 A. Yes, accrual basis.

21 Q. And if we look at the third column
22 associated with Primary Aluminum Corp., the
23 year-to-date at this point is shown as a loss of
24 \$70,780,000, correct?

25 A. That is correct.

1 MR. DARR: With the Bench's permission I
2 would like to have an exhibit marked as IEU Exhibit
3 No. 2.

4 EXAMINER PARROT: So marked.

5 (EXHIBIT MARKED FOR IDENTIFICATION.)

6 MR. DARR: Possibly to simplify the
7 identification, Mr. Petricoff, we asked for
8 admissions with regard to this document, and I
9 believe that you admitted this was a true and
10 accurate copy of the report.

11 MR. PETRICOFF: From the bankruptcy, yes,
12 I recall that.

13 MR. DARR: I recall that.

14 MR. PETRICOFF: We are not challenging
15 the authenticity.

16 MR. DARR: Very good. Thank you.

17 Q. (By Mr. Darr) Mr. Riley, do you have in
18 front of you what's been marked as IEU Exhibit No. 2?

19 A. Yes.

20 Q. And would you agree with me that this is
21 the report filed in July for the period ending in
22 June of 2013?

23 A. I believe that to be correct.

24 Q. And this is the same form of report as
25 that that's been previously marked as IEU Exhibit 1,

1 correct?

2 A. That is correct.

3 Q. And, again, if we turn to page -- I am
4 going to have to count it for you because these are
5 not numbered. Page 7 of the report at the top which
6 is listed "Debtor-in-Possession June, 2013," and it
7 shows the monthly operational statement again.

8 A. That's correct.

9 Q. And for the month of June, Ormet Primary
10 Aluminum Corp. the loss was listed as \$22,384,000; is
11 that correct?

12 A. That is correct.

13 Q. And if we look on the next page, page 8
14 of IEU Exhibit No. 2, we see that the aggregate loss
15 through that month -- year-to-date loss for that
16 month was 66,129,000, correct?

17 A. On an accrual basis, yes.

18 Q. And as we discussed with Mr. Tanchuk
19 earlier today and I believe you discussed with
20 Mr. Nourse earlier today, these losses represent the
21 losses that have occurred while the company is
22 receiving the full available discounts under the
23 current reasonable arrangement.

24 A. I believe those are two different things.
25 By that I mean the way you account for discounts that

1 are received over a period of eight months is you
2 spread them out over the year so only a portion of
3 what we've already received are in those P&L numbers,
4 in the accrual numbers.

5 Q. Let me put it this way, you had losses
6 through the end of August -- or, excuse me, end of
7 July exceeding \$70 million.

8 A. On an accrual basis, yes.

9 Q. And on an accrual basis you would have
10 recognized slightly more than half of the discounts,
11 the cash discounts, that you had received on the
12 bills through that month, correct?

13 A. Approximately.

14 Q. And over the remaining months you would
15 receive the balance of that for the year 2013.

16 A. That is correct.

17 Q. And those could accrue to no more than
18 \$44 million this year, correct?

19 A. As the current accounting, yes.

20 Q. The modifications that you are proposing
21 in the plan currently assumed four potlines are
22 running?

23 A. Yes.

24 Q. You are currently running two; is that
25 correct?

1 A. That is correct.

2 Q. And as of August 15, 2013, you were still
3 evaluating when it would be possible to start lines 3
4 and 4, correct?

5 A. That's correct.

6 Q. And as of August 15, 2013, you were still
7 evaluating whether it would be possible to restart
8 lines 5 and 6, correct?

9 A. Yes.

10 MR. DARR: The balance I've got may refer
11 to items that are in the confidential portion so, and
12 I don't have any other nonconfidential
13 cross-examination at this time.

14 EXAMINER PARROT: Thank you. Let's go
15 off the record.

16 (Discussion off the record.)

17 EXAMINER PARROT: All right. At this
18 point we are entering into a confidential portion of
19 the transcript.

20 (CONFIDENTIAL PORTION EXCERPTED.)

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3 (OPEN RECORD.)

4 EXAMINER PARROT: All right. At this
5 point let's go back on the record. We are now going
6 to return to the open portion of the transcript.

7 Staff?

8 MR. McNAMEE: Thank you.

9 - - -

10 CROSS-EXAMINATION

11 By Mr. McNamee:

12 Q. Good afternoon, Mr. Riley.

13 A. Good afternoon.

14 Q. Several times you've used the term
15 "prepriced." What does that mean?

16 A. We enter into commercial arrangements
17 with four or five large companies, trading companies,
18 in the world. The price in there then becomes
19 variable. It is based usually on an LME, either
20 current month or prior month. But Mr. Tanchuk has
21 been able to negotiate as part of these arrangements
22 for a small set fee we can fix the price at our
23 determination; in other words, if the price as I had
24 said previously in the spring usually historically
25 has been much higher and the LME forward curve

1 reflected that, then Mr. Tanchuk would go with those
2 customers and lock in a fixed price for anywhere from
3 a one-year to three-year period.

4 Q. These aren't options then?

5 A. No.

6 Q. These are --

7 A. These are termed a -- an indexed-based
8 pricing of the LME to a firm price.

9 Q. I see. Let me see, at page 5 of your
10 testimony towards the bottom, you talk about these
11 trigger prices.

12 A. Yes.

13 Q. When's the last time the LME was at 2,650
14 for any extended period?

15 A. I believe 2011.

16 Q. 2011. How long did that last?

17 A. Lasted for a period of time and then fell
18 off starting I believe in the fall but that's my
19 recollection. I'm not certain.

20 Q. Okay. Good enough. I believe you were
21 in the room when I talked to Mr. Tanchuk about any
22 efforts Ormet has made to approach any West Virginia
23 governmental entities about providing some financial
24 support to keep Ormet operating. And I believe he
25 indicated that an overture has been made but there

1 has been nothing forthcoming as of yet. Do you
2 remember that exchange?

3 A. Yes, I do.

4 Q. Okay. Would you agree with me that
5 there's nothing in the plan that you are testifying
6 to here today that would take into account any
7 financial support that West Virginia might come up
8 with at some point?

9 A. There's not reflected in this.

10 Q. Nothing reflected, okay. The bottom of
11 page 6 and the top of page 7, you refer to two
12 different deals with Alcoa, one with the New York
13 Power Authority Trustees, and another with Bonneville
14 Power Administration.

15 A. Correct.

16 Q. Do you know the prices?

17 A. I thought they were in the 30s.

18 Q. 30s? Have you seen those deals?

19 A. I saw an announcement of those deals
20 being made. I have not actually physically laid eyes
21 on the contract.

22 Q. Okay. But the price was in the
23 announcement?

24 A. Yes, I believe that was the case.

25 MR. McNAMEE: Thank you.

1 EXAMINER PARROT: Any redirect?

2 MR. PETRICOFF: Yes, your Honor.

3 - - -

4 REDIRECT EXAMINATION

5 By Mr. Petricoff:

6 Q. Mr. Riley, I'm -- I'm not an accountant
7 so you may have to help me out here.

8 A. Certainly.

9 Q. In giving your answers to Mr. Darr, you
10 talked about in reference to IEU Exhibits 1 and 2
11 that this is on a P&L basis.

12 A. P&L or cap, yes.

13 Q. How is that different from a cash basis?

14 A. Under General Accepted Accounting
15 Principles it does not reflect cash. It's what they
16 refer to as accrual accounting, and as the example I
17 gave as it related to the discount where we have
18 received \$5-1/2 million a month in the first seven
19 months, that is not what flowed through the profit
20 and lose statement under GAAP accounting because you
21 are required to smooth that over the year divided by
22 total consumption per kilowatt.

23 Q. Does -- in the P&L word does that apply
24 to your inventory as well?

25 A. Likewise, as I believe I mentioned,

1 because of the low price on the LME, we have had to
2 write down our inventories to reflect market price
3 because you carry your inventory of the lower of cost
4 or market. That has required us to take an
5 approximately \$20 million reduction noncash on our
6 books and flows through to the P&L similar to what I
7 referred to as the other comprehensive income charge,
8 again, noncash relating to the losses in pensions
9 that existed during the financial crisis of 2008 that
10 amortized over an extended period of time. A
11 combination of those two items alone, our noncash,
12 equate to approximately \$30 million.

13 Q. So when I look at -- at IEU Exhibit -- I
14 am looking at IEU Exhibit 2 at this moment, and it
15 shows at the bottom that for Ormet Primary Aluminum
16 Corporation the net loss was -- year-to-date was \$66
17 million. That doesn't mean that you sold aluminum
18 for \$66 million less than it cost you to make it.

19 A. No.

20 Q. How much of the \$66 million loss are
21 things like marked market changes and pension plan
22 restructuring?

23 A. It's almost \$40 million -- \$40 million
24 exclusive of the bankruptcy restructuring charges are
25 about that so of that number almost \$50 million

1 either noncash or it's associated with the
2 restructuring efforts.

3 Q. So of the \$66 million loss only 16, 18
4 million dollars is really on the -- because of the
5 sale price for aluminum?

6 A. Primarily, yes.

7 Q. Are the bankruptcy court filings showing
8 net losses indicative of how Ormet will perform if
9 this application is approved?

10 A. No.

11 Q. Why?

12 A. A couple of things. No. 1 is we said
13 that the purchase by Smelter Acquisition Co. is
14 dependent upon these proceedings concluding. No. 1,
15 the bankruptcy charges go away. No. 2, the other
16 comprehensive income since the pensions will no
17 longer be part of Ormet any away. No. 3 is we
18 anticipate, you know, right now a significant portion
19 of the aluminum smelters in the world are under
20 water, i.e., the cash price of producing is less than
21 the revenue.

22 The laws of economics cannot be suspended
23 forever, and it will recover as Harbor has predicted.
24 And at that point in time the cost, for example, that
25 we get in the lower cost of market would go away and,

1 in fact, could end up being reversed as we brought it
2 back on the books.

3 Q. Finally, you were asked a few questions
4 concerning what the effect would be on -- on AEP
5 if -- what the effect would be on AEP if Ormet went
6 shopping in terms of certain of the bypassable
7 charges. Do you recall those questions?

8 A. Yes.

9 Q. Would your answer be the same if instead
10 of going shopping Ormet just went out of business?
11 If they liquidated instead, do you think there would
12 be any difference?

13 A. I don't think there would be any
14 difference.

15 MR. PETRICOFF: No further questions.
16 Thank you very much.

17 EXAMINER PARROT: Any recross from AEP?

18 MR. NOURSE: Yes, your Honor.

19 - - -

20 RECROSS-EXAMINATION

21 By Mr. Nourse:

22 Q. Mr. Riley, I am going to try to
23 understand what you just went through with your
24 counsel. You just said that the losses in 2013 are
25 not indicative of how Ormet would perform under the

1 proposed arrangement.

2 A. Under going forward, yes.

3 Q. And that was because of things that no
4 longer apply like the pension obligations are reduced
5 or part of the restructuring efforts are coming out
6 of the bankruptcy?

7 A. That is part of it, yes.

8 Q. And when you adjusted those out earlier,
9 I thought you said they were still like a \$20 million
10 loss based on aluminum sales this year.

11 A. Yes.

12 Q. Okay. Ignoring those other extraordinary
13 events you still had a loss this year even with the
14 discounts, correct?

15 A. Absolutely.

16 Q. And your future prospects for -- for
17 returning to profitability in addition to the
18 ratepayer funding and the assistance there is
19 dependent on LME prices increasing, correct?

20 A. LME, yes.

21 MR. NOURSE: Okay. Thank you.

22 EXAMINER PARROT: OCC?

23 MR. BERGER: Thank you, your Honor.

24 - - -

25

RECROSS-EXAMINATION

By Mr. Berger:

Q. Mr. Riley, you talked about how that aluminum prices would need to return to a more I don't know if you said realistic level because the cash price of producing aluminum is higher than the cost out -- reflected in aluminum prices, do you recall that?

A. Yes, I do.

Q. You're aware though that a substantial percentage of aluminum smelter operations are subsidized in some form or another throughout the world; is that correct?

A. I can't say they are subsidized. They have cost advantages, yes.

Q. Cost advantages provided by government subsidies or other --

A. Some way, shape, or form, yes, whether it be electricity or other areas.

Q. Would you agree with me that would tend to depress the price relative to commodities that are not subsidized?

A. In a declining market, yes. Aluminum uniquely continues to have increased demand every

1 year even in recessionary periods.

2 MR. BERGER: Thank you. That's all I
3 have.

4 EXAMINER PARROT: OEG?

5 MR. BOEHM: No questions, your Honor.

6 EXAMINER PARROT: IEU?

7 MR. DARR: No questions.

8 EXAMINER PARROT: Staff?

9 MR. McNAMEE: No questions.

10 EXAMINER PARROT: Thank you very much.
11 You are excused.

12 MR. PETRICOFF: Your Honor, at this point
13 we would move admission into -- into evidence of
14 Ormet Exhibit No. 5.

15 EXAMINER PARROT: Are there any
16 objections to the admission of Ormet Exhibit 5?

17 Hearing none it shall be admitted

18 (EXHIBIT ADMITTED INTO EVIDENCE.)

19 EXAMINER PARROT: Mr. Darr.

20 MR. DARR: Move the admission of IEU
21 Exhibits 1 and 2, your Honor.

22 EXAMINER PARROT: Are there any
23 objections?

24 MR. PETRICOFF: No objections, your
25 Honor.

1 EXAMINER PARROT: All right. Very good.
2 IEU Exhibits 1 and 2 are both admitted into the
3 record.

4 (EXHIBITS ADMITTED INTO EVIDENCE.)

5 EXAMINER PARROT: Let's go off the
6 record.

7 (Discussion off the record.)

8 EXAMINER PARROT: Let's go back on the
9 record. At this point we have decided that we are
10 out of witnesses for the day. We will reconvene
11 tomorrow morning at 10 in this room, 11-A, and I
12 think our -- we have two witnesses left from Ormet
13 and then one AEP witness, and I think that will wrap
14 us up for the hearing for tomorrow. Thank you.

15 (Thereupon, the hearing was adjourned at
16 2:53 p.m.)

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1 CERTIFICATE

2 I do hereby certify that the foregoing is
3 a true and correct transcript of the proceedings
4 taken by me in this matter on Tuesday, August 27,
5 2013, and carefully compared with my original
6 stenographic notes.

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Karen Sue Gibson, Registered
10 Merit Reporter.

11 (KSG-5749)

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Summary: Transcript in the matter of Ormet Primary Aluminum Corporation hearing held on 08/27/13 - Volume I electronically filed by Mrs. Jennifer Duffer on behalf of Armstrong & Okey, Inc. and Gibson, Karen Sue Mrs.