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Via E-file

October 18, 2017

Public Utilities Commission of Ohio
PUCO Docketing
180 E. Broad Street, 10th Floor
Columbus, Ohio 43215

In re: Case No. 17-2132-EL-UNC

Dear Sir/Madam:

Please find attached the JOINT APPLICATION FOR APPROVAL OF AN ECONOMIC DEVELOPMENT AND REASONABLE ARRANGEMENT between Ohio Power Company and Acero Junction Inc. e-filed today in the above-referenced docket.

Please place this document of file.

Respectfully yours,



Michael L. Kurtz, Esq.
Jody Kyler Cohn, Esq.
BOEHM, KURTZ & LOWRY

MLKkew
Attachment

Cc: Steven T. Nourse, Sr. Counsel (via email: stnourse@aep.com)
American Electric Power
1 Riverside Plaza
Columbus, Ohio 43215

**BEFORE THE
PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Joint Application for Approval of an Economic Development Arrangement between Ohio Power Company and Acero Junction Inc.	:	Case No. 17-2132-EL-UNC
	:	
	:	

**JOINT APPLICATION FOR APPROVAL OF AN
ECONOMIC DEVELOPMENT AND REASONABLE ARRANGEMENT**

1. This Joint Application for Approval of an Economic Development and Reasonable Arrangement ("Arrangement") is submitted by Acero Junction Inc. ("Acero Junction" or "Customer") and Ohio Power Company ("AEP Ohio" or "Company") to the Public Utilities Commission of Ohio ("Commission") pursuant to R.C. 4905.31 and Ohio Adm. Code 4901:1-38-03 and 4901:1-38-05. Acero Junction is a mercantile customer as defined by R.C. 4928.01. AEP Ohio is an electric distribution company as defined in R.C. 4928.01.
2. Acero Junction is located at 1500 Commercial Ave., Mingo Junction, OH 43938 in Jefferson County and is in the business of making and re-rolling steel slabs into hot rolled steel coils. Its facility is situated on the Ohio River with barge loading and unloading capabilities. The plant is serviced by both the Norfolk Southern and Wheeling & Lake Erie railroads.
3. Steelmaking operations at Acero Junction's facility (which was formerly the flagship plant of Wheeling Pittsburgh Steel) have been shut down since April 2009. Acero Junction is now seeking to restart those operations, providing a major economic stimulus to a depressed area of Eastern Ohio. Acero Junction's contemplated restart of steelmaking operations at the facility enjoys strong local, state, and national political support. Because Customer is restarting an existing steelmaking operation, no material expenditures for transmission or distribution facilities have been made by AEP Ohio to reactivate service. A study is to be completed to confirm whether additional investments are needed prior to the Electric Arc Furnace ("EAF") being restarted.
4. The Acero Junction facility is within the certified service area of AEP Ohio. If steelmaking operations at Acero Junction's facility are fully resumed, Acero Junction would be the second largest retail customer of AEP Ohio.
5. Acero Junction expects that it will be financially viable at full production. The Acero Junction steelmaking operation is equipped with a state-of-the-art Consteel EAF and a ladle metallurgy furnace ("LMF"). Both were installed in 2004 with an investment of over \$125 million. The EAF and LMF feed steel to a nine-inch thick slab caster. The slab caster was modernized in 2000. After the steel is cast, it is fed to an 80-inch Hot Strip Mill ("HSM"). The HSM is equipped with automatic roll changers, roll bending, and hydraulic automatic gauge control. The HSM was upgraded in 2006 at a cost of over \$20 million. Because of its state-of-the-art environmental controls and the careful maintenance of its equipment over time, the plant can be restarted and run effectively, and on a low-cost basis, by Acero Junction's experienced management group.

6. The Acero Junction facility would offer a unique product. Because the Acero Junction hot strip mill can produce strip over 72 inches wide, it can supply all of the products required by steel distributors and service centers. The width capability is also attractive in the pipe and tube markets, especially the local producers servicing the Marcellus and Utica shale drilling operations.
7. Within three years of resuming steelmaking operations, Acero Junction expects to employ 270 full-time direct employees plus an estimated 50 full-time equivalent contract employees. These are family-supportive jobs that are highly valued in Jefferson County. The annual compensation package (salary plus benefits) for the full-time direct employees is expected to be at least \$22 million, or \$81,481 per employee. For the full-time equivalent contract employees, the annual compensation is expected to be approximately \$2 million, or \$40,000 per employee. Plus, as a manufacturing industry creating value and bringing new money into the economy, it is projected that many indirect jobs will be created via the economic multiplier effect. Acero Junction also projects approximately \$375 million in purchases from Ohio vendors. Based upon these figures, Acero Junction's total net annual economic impact in Ohio is estimated to be approximately 3,110 jobs and \$183 million in labor income. Of that, about 1,260 jobs and \$71.6 million in labor income will be in Jefferson County. The restart of the Acero Junction plant will also result in yearly increases in state, local, and school taxes. The Economic Impact Study which supports these conclusions is attached.
8. The Mingo Junction community in Jefferson County is economically depressed. In 2014, 20% of the persons living in Jefferson County lived below the poverty level, which was 27% higher than Ohio as a whole. In the 2010 census, the median household income in Jefferson County was \$37,527, which was 21% lower than Ohio as a whole. As of July 2017, the unemployment rate in Jefferson County was 7.5% which was 36% higher than Ohio's average unemployment rate of 5.5%.
9. Restarting steelmaking operations at Acero Junction is expected to occur in the first half of 2018 and will require over \$60 million to prepare the EAF, LMF, HSM and continuous caster for operations, hire and retrain workers, absorb initial operating losses, and begin the build-up of working capital. Nearly \$100 million of working capital will be required at planned operations levels. Acero Junction currently anticipates receiving tax credits and grants from Jobs Ohio.
10. Producing steel by melting scrap metal in an electric arc furnace is an extremely energy-intensive process. In order to attract the necessary investment capital to reopen and to operate the Acero Junction facility on a long-term basis, a competitive electric power supply is required. Consequently, without Commission approval of the competitive power rate requested in this Joint Application, Acero Junction's ability to finance the restart of steelmaking operations at the facility may be jeopardized.
11. The competitive electric power rate resulting from this Arrangement will strengthen the long-term viability of Acero Junction and will enable Acero Junction to produce more "made in America" steel using its electric arc furnace. Increasing Acero Junction's electric arc furnace production will reduce the number of slabs to be imported from foreign countries at the rolling facility and will allow Acero Junction to hire more employees at a faster rate.
12. R.C. 4905.31 and Ohio Adm. Code 4901:1-38-05 permit the Commission to approve a Reasonable Arrangement between a mercantile customer and an electric utility upon joint application. Ohio Adm. Code 4901:1-38-03 permits the Commission to approve an Economic Development Arrangement between a mercantile customer and an electric utility upon joint application. By this Joint Application, Acero Junction and AEP Ohio are requesting that the Commission approve this Arrangement in order to provide the customer with stable, predictable, and competitive electric power pricing sufficient to induce investors to provide the necessary capital to restart steelmaking operations at the facility and to facilitate the long-term jobs and economic development described above.

13. In this Joint Application, Acero Junction and AEP Ohio submit the structure and content of the Arrangement, as required by R.C. 4905.31 and Ohio Adm. Code 4901:1-38-03 and 4901:1-38-05. So as to facilitate approval of this Application, the structure and content of this Arrangement incorporate rate mechanisms (AEP Ohio's interruptible power, transmission, and economic development tariffs) already found reasonable by the Commission.

A) Term and Effective Date

The term of this Arrangement shall commence immediately after the date of a Commission order approving this Application. The term of this Arrangement shall end May 31, 2024. Beginning on the effective date of the Arrangement, Acero Junction and AEP Ohio will enter into a written contract that is consistent with the Joint Application approved by the Commission in this proceeding, which will be filed at the Commission. If Acero Junction does not follow applicable terms and conditions of AEP Ohio's tariffs, AEP Ohio will have good cause to request that the Commission terminate the Reasonable Arrangement.

B) Pricing During Arrangement Term

I. General Terms and Conditions Applicable Throughout Arrangement Term.

1. Effective upon the date of any Commission order approving the continuation or establishment of an interruptible power ("IRP") tariff in AEP Ohio's service territory in Case No. 16-1852-EL-SSO, Customer will receive a monthly rate credit as set forth in AEP Ohio's IRP tariff, or its successor, based upon customer's actual interruptible demand up to a maximum of 120 MW of Customer's interruptible load (the 120 MW total can include the rolling mill and/or EAF load but the load will be closer to 40 MW prior to adding the EAF). In order to receive the monthly IRP credit, Customer will comply with the applicable terms and conditions of the IRP tariff. The costs of the IRP rate credit will be collected from customers in the same manner as other IRP tariff costs. Customer's receipt of a monthly IRP rate credit pursuant to this provision will be subject to any total IRP credit cap established in Case No. 16-1852-EL-SSO.
2. Customer will have the opportunity to bid its interruptible capability into the PJM Reliability Pricing Model ("RPM") auctions or participate in any other PJM demand response program occurring during the term of this Arrangement and to retain any revenue from PJM associated with that interruptible capability.
3. If AEP Ohio's IRP tariff, or its successor, is suspended or terminated after the date upon which Customer begins taking service under the tariff, then Customer shall have the option to continue to receive an interruptible rate credit under the same terms and conditions set forth in the suspended or terminated IRP tariff throughout the term of this Arrangement and subject to the IRP credit cap set forth in paragraph 13(B)(I)(1) as well as the requirements of paragraph 13(B)(I)(6) of this Application.
4. If the monthly rate credit received by Customer under the IRP tariff is not sufficient to completely offset 85% of Customer's monthly transmission and distribution (collectively, "wires") charges, then Customer will receive an additional monthly Economic Development rate credit in an amount necessary to offset 85% of Customer's wires charges. The Economic Development rate credit calculation will exclude state kilowatt hour tax charges, which Acero will self-assess. The costs of any Economic Development rate credit will be collected through AEP Ohio's Economic Development Rider ("EDR"). The total Economic Development rate credit received by Customer during the term of the Arrangement will be capped at \$26.2 million.

5. Customer will retain the right to participate in AEP Ohio's BTCR pilot program, or its successor, as a member of the Ohio Energy Group throughout the term of this Arrangement. If AEP Ohio's BTCR pilot program, or its successor, is suspended or terminated during the term of this Arrangement, then Customer and Company will jointly attempt to develop a replacement program that would allow, subject to Commission approval, Customer to reduce its transmission expense by managing its transmission peak demand and that replicates the BTCR pilot as much as reasonably practicable.
 6. In order to ensure that Customer makes some contribution to AEP Ohio's fixed costs, this Arrangement cannot result in a negative monthly bill for Customer. If the IRP credit would otherwise result in a negative monthly bill for Customer in the absence of any Economic Development rate credit, then the IRP revenue cap established in Case No. 16-1852-EL-SSO as it pertains to this Arrangement will be reduced only by the amount necessary to produce zero wires charges for Customer in that month.
 7. Customer commits to have a minimum of 270 full-time employees at the EAF, LMF, HSM and continuous caster within three years of resuming steelmaking operations. If this job commitment is not achieved, without valid justification, then the Commission may reduce the \$26.2 million Economic Development revenue cap in proportion to the percentage of job commitment that was not achieved (e.g. if Acero Junction's job commitment is missed by 2%, then the total Economic Development revenue cap may be reduced by 2%). Customer will provide annual reports to Commission Staff on the status of employment levels. The annual reports will include the number of full-time equivalent contract employees directly related to the EAF operation. AEP Ohio shall continue to bill Acero Junction under the terms of the approved Arrangement until otherwise directed by the Commission.
 8. Customer commits to invest a minimum of \$60 million in the Acero Junction facility (EAF, LMF, HSM and continuous caster) within one year of resuming steelmaking operations, including any investments in the facility undertaken prior to the commencement of this Arrangement. If this capital investment commitment is not achieved, without valid justification, then the Commission may reduce the \$26.2 million Economic Development revenue cap in proportion to the percentage of capital investment commitment that was not achieved (e.g. if Acero Junction's capital investment commitment is missed by 2%, then the total Economic Development revenue cap may be reduced by 2%). This proportional Economic Development revenue reduction would be in addition to any reduction due to missed job numbers. Customer will provide annual reports to Commission Staff on the status of its capital investment in the facility. AEP Ohio shall continue to bill Acero Junction under the terms of the approved Arrangement until otherwise directed by the Commission.
 9. Customer shall have the right to opt out of AEP Ohio's energy efficiency and peak demand reduction programs as provided in S.B. 310.
- II. Assignment. This Arrangement, including all rights and obligations hereunder, shall be fully assignable by Customer to any new owner or operator of the plant with the consent of AEP Ohio, which consent shall not be unreasonably withheld, and the Commission.
- III. Termination Rights. Any time during the term of the Agreement, Customer can elect to terminate the Arrangement with prior written notice to AEP Ohio and the Commission. Such termination may not take effect at the earliest until the first day of the billing period following written notice to AEP Ohio.

IV. Repayment. Customer shall not be required to repay any credit received or accrued under this Agreement except as authorized by this Arrangement or in the case where Customer commits violations of the law, fraud, or misrepresentation.

14. R.C. 4928.02 sets forth Ohio's state policy related to electricity service. Approval of this Joint Application will advance state policy. Specifically, approval of the Arrangement will promote job growth and capital investment in Ohio by facilitating the restart of steelmaking operations in Ohio, bringing approximately 3,110 direct and indirect jobs to the State and \$183 million in labor income annually, plus added tax revenues, and additional purchases from Ohio vendors.
15. Acero Junction agrees to maintain operations at the project site for the term of the Arrangement. This Arrangement is for non-retail purposes.
16. This Arrangement will provide positive economic development impacts to the State by restarting steelmaking operations in a depressed area of Eastern Ohio. Further, no new AEP Ohio transmission or distribution facilities have been required to restart Acero Junction's steelmaking facility. A study will be completed to confirm whether additional investments are needed prior to the Electric Arc Furnace ("EAF") being fully operated.
17. To the extent that any delta revenue is created and flowed through to other AEP customers as a result of this Arrangement, Acero Junction has demonstrated that the additional costs will be outweighed by the positive economic impacts to Ohio. Assuming equal distribution of the total \$26.2 million Economic Development rate credit as well as a 75-month Arrangement term, other AEP Ohio customers would pay an average Economic Development rate credit of approximately \$350,000 per month or \$4.2 million per year. This cost is far outweighed by Acero Junction's estimated total net annual economic impact in Ohio of approximately 3,110 jobs and \$183 million in annual labor income.
18. Ohio Adm. Code 4901:1-38-03 and 4901:1-38-05 require a demonstration that a proposed Arrangement does not violate R.C. 4905.33 and 4905.35. Acero Junction represents that the proposed Arrangement is not anti-competitive, discriminatory or unduly preferential, and does not disadvantage any competitive retail electric service ("CRES") provider. Under the Arrangement, Acero Junction is free to purchase electric generation service from a CRES provider. Acero Junction and AEP Ohio propose this Arrangement solely for purposes of attempting to restart steelmaking operations at the facility described above.
19. Acero Junction and AEP Ohio respectfully submit that the information contained in this Joint Application satisfies the requirements of R.C. 4905.31 and Ohio Adm. Code 4901:1-38-03 and 4901:1-38-05. To the extent that the relief requested in this Joint Application requires a waiver of any filing requirements of Ohio Adm. Code Chapter 4901:1-1-38, Joint Applicants request such a waiver.
20. AEP Ohio supports this proposal as a balanced approach that promotes significant economic development in its service territory, including jobs and capital investment.

REQUEST FOR EXPEDITED RULING

21. Acero Junction and AEP Ohio request that the Commission approve this Application on an expedited basis, i.e. within thirty (30) days of filing this Application.
22. An expedited ruling will significantly enhance the possibility that Acero Junction will be able to obtain sufficient investment capital to restart steelmaking operations at the facility. Expedited consideration is also necessary given that Acero Junction seeks to reopen steelmaking operations at the facility in the first or second quarter of 2018. A delay in Commission approval of Acero Junction's request may jeopardize its ability to secure sufficient financing to restart steelmaking operations at the facility.
23. Through the attached affidavit, Acero Junction and AEP Ohio submit that it has met its burden of proof to demonstrate that the proposed Arrangement is just and reasonable.

CONCLUSION

24. For the foregoing reasons, Acero Junction and AEP Ohio urge the Commission to find that the Arrangement described herein is just and reasonable and promptly act to approve this Arrangement on the terms and conditions described herein.

Respectfully submitted,



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COUNSEL FOR AEP OHIO

AFFIDAVIT

State of Ohio)

County of Jefferson)

SS

I, Steven D. Guzy, being first duly sworn, verify that I have reviewed the foregoing Application and that the assertions contained in the Application are true and accurate to the best of my knowledge and belief.

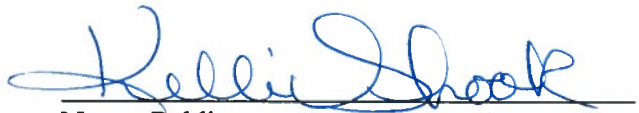


Steven D. Guzy, General Manager
Acero Junction, Inc.

Sworn to and subscribed before me, a Notary Public, this 16 day of Oct., 2017.



Kelli Shook
Notary Public, State of Ohio
My Commission Expires
January 12, 2022


Notary Public

The Estimated Local and Statewide Economic and Fiscal Impacts of Acero Junction Steel Works, LLC, Mingo Junction, Ohio, Plant

by
Barry J. Kornstein
Consulting Economic Researcher

September 21, 2017

EXECUTIVE SUMMARY

The Acero Junction Steel Works, LLC, facility, which is located in the town of Mingo Junction, along the Ohio River just south of Steubenville in Jefferson County, Ohio, was once the flagship plant of Wheeling Pittsburgh Steel. Though the plant has been closed since 2009 it contains a state-of-the-art Consteel Electric Arc Furnace and a ladle metallurgy furnace, a nine-inch thick slab caster, an 80-inch Hot Strip Mill, and state-of-the-art environmental controls, all of which were installed or significantly upgraded since 2000 and carefully maintained in anticipation of a restart. This working capital is worth over \$130 million. Acero Junction is interested in learning about and documenting the regional and statewide economic importance of its Mingo Junction plant. The purpose of this report is to document and communicate the regional and statewide economic and fiscal importance of the Acero Junction plant to Ohio.

Since the plant is not yet operating, the analysis in this report is prospective and based on Acero Junction's estimates of its spending on various production inputs and the volume and value of production output should the plant reach its expected capacity in the fourth quarter of 2018. The Acero Junction plant is expected to employ 320 people, with an annual payroll of about \$17.6 million, plus \$6.3 million in fringe benefits. Most of its employees will reside in Ohio, the majority in Jefferson County if commuting patterns follow historical trends in the area. Acero Junction anticipates selling roughly \$1.3 billion of hot rolled coil steel in the fourth quarter of 2018. Based upon Acero Junction's own estimates supplemented by information on steel and ferroalloy manufacturing plants already operating within Ohio, about 89 percent of the value the hot rolled coil steel manufactured at the plant will be accounted for by the value of intermediate goods. From this information, we also estimate that Acero Junction purchases from Ohio vendors will be about 28 percent of the value of their sales, approximately \$375 million. Based on this and other regional economic data, and using a customized industry input-output model to estimate the economic impacts of the

Acero Junction plant, it is my opinion to a reasonable degree of economic certainty that the Acero Junction's total net annual economic impact in Ohio will be approximately 3,110 jobs and \$183 million in labor income. Of that, about 1,260 jobs and \$71.6 million in labor income will be in Jefferson County. Further, it is my opinion to a reasonable degree of economic certainty that state and local governments in Ohio will receive at least \$18.9 million in tax revenues in 2018 related to operations at the Acero Junction plant, of which about \$1.7 million will be in the form of local income and sales tax receipts in Jefferson County.

The above estimates are for the economic and fiscal categories most easily quantified. Although difficult to quantify, it is also my opinion that there will be other, positive economic impacts related to the operation of the Acero Junction plant. For example, the area real estate market is linked to the payrolls at such facilities, but it is very difficult to sort out all the factors that contribute to housing values and commercial properties. Real estate markets are impacted over decades by complex interactions among many factors, including retirements, migration, mortgages, second incomes, second careers, children, as well as any industrial changes in the marketplace. Social indicators, like unemployment and crime, will also likely be related to the Acero Junction plant's employment levels, as will be public costs for unemployment benefits, retraining, and social services. And the finances of local school districts would be linked to the Acero Junction plant's operations. Acero Junction pays property taxes annually, and employees pay property taxes on their homes as well.

In the remainder of the report, I describe the methods used in this study, provide the detailed economic and fiscal estimates, and also highlight the relative importance of manufacturing industries to the Jefferson County region.

METHODOLOGY

Because the hot rolled coil steel produced by the Acero Junction plant will be sold in national and international markets, it will bring new dollars into the regional and state economy – as opposed to simply absorbing local dollars, as is the case for most retail and service operations. In this sense, the opening of the Acero Junction plant would have large and predictable economic and fiscal impacts in Ohio. I now turn to a discussion of the methods used to measure the regional economic and fiscal impacts. First, I explain how I defined the regional economic footprint for purposes of this impact study. Then, I discuss in some detail the input-output model used to measure the statewide impacts.

Location and Economic Footprint

The Acero Junction plant is located along the Ohio River in Mingo Junction, OH, just 5 miles south of Steubenville, the county seat of Jefferson County. The residence county to workplace county commuting flow file from the U.S. Census Bureau's 5-Year American Community Survey of 2009-2013 estimates that 74% of Jefferson County workers also live in the county and that 88% live in Ohio. While these percentages are probably lower if we remove school and other government, retail and personal service jobs, it is still likely that a sizable majority of Acero Junction employees will live in Jefferson County. Acero Junction management also estimates that they will be spending about \$350 million with Ohio vendors purchasing scrap metal, power, and other production inputs and business services. As will be seen below, the software model of the Ohio state economy I utilize agrees with this assessment. The probable employment and spending patterns of the Acero Junction plant indicate that the plant will have both significant local economic impact and impact that reaches statewide. Therefore, I utilize both an economic model of Jefferson County and one of the State of Ohio to derive the overall impacts.

Input-Output Model of Ohio

To evaluate the economic and fiscal impacts of the Acero Junction plant, I used standard regional economic impact methods. I obtained detailed economic data for Jefferson County and the State of Ohio, and used them to build IMPLAN input-output models of the region.¹ The model is able to simulate the effects of changes in economic activity for any of 536 regional industries. It also can predict detailed inter-industry purchases and household spending related to industrial changes. Such region-specific models have the

¹ As best I can tell, IMPLAN is one of the most widely used regional input-output modeling systems in the world. It has been used for thousands of impact studies. It was developed by economists at the University of Minnesota, and is sold by IMPLAN, Inc. See implan.com for documentation.

advantage that they take into account those industrial supplies and retail items likely available in the region, and thus provide more precise economic impact estimates than one that assumes everything is available in the region. The more that local industries can support the plant operation and the employees' household demands, the greater the regional economic multipliers, and hence the greater the predicted regional economic impact.

The IMPLAN sector of interest used for this study is number 217, Iron and Steel Mills and Ferroalloy Manufacturing. This industry is defined according to the North American Industrial Classification System (NAICS) code 331110. The official definition is as follows:

This industry comprises establishments primarily engaged in one or more of the following: (1) direct reduction of iron ore; (2) manufacturing pig iron in molten or solid form; (3) converting pig iron into steel; (4) making steel; (5) making steel and manufacturing shapes (e.g., bar, plate, rod, sheet, strip, wire); (6) making steel and forming pipe and tube; and (7) manufacturing electrometallurgical ferroalloys. Ferroalloys add critical elements, such as silicon and manganese for carbon steel and chromium, vanadium, tungsten, titanium, and molybdenum for low- and high-alloy metals. Ferroalloys include iron-rich alloys and more pure forms of elements added during the steel manufacturing process that alter or improve the characteristics of the metal being made.

<http://www.census.gov/eos/www/naics/>

At the heart of regional input-output models are the estimates of how much of the supply needs of an industry can be provided by other regional industries. The models use federal data on the presence of industries in the local economy to predict how much of an industry's inputs can be supplied locally versus that which must be imported from other regional economies.

However, for the Acero Junction plant, the default industry production function for Iron and Steel Mills and Ferroalloy Manufacturing differed from Acero Junction management's estimates of their own production needs in significant ways. This is largely due to the fact that the Acero Junction plant will be a mini-mill, rather than an integrated plant, producing a single product. It will not need coal or coke, and only a limited range of chemical additives, but the purchase of steel slabs from other mills and scrap metal will make up a far greater percentage of input purchases. We therefore customized the industry production function based on Acero Junction management's estimates of their direct production needs (those inputs directly related to producing the steel coils). Acero Junction does not expect to buy steel slabs within Ohio, but does

expect to purchase much of its scrap needs from Ohio vendors. For other inputs, such as wholesale, transportation, and other business services we assumed they would be needed in the same relative proportions as in the default model. Other than slabs and scrap, we used IMPLAN's defaults for the percentage of each input that would be purchased either in Jefferson County or elsewhere in Ohio.

In Table 1, I show the top 19 commodities expected to be used as inputs at the Acero Junction plant, as predicted by the customized IMPLAN model. I show both the predicted supply from everywhere, as well as the predicted supplies from Jefferson County and other Ohio companies, stated per million dollars of inputs bought. One can see that the model anticipates that none of the steel slabs will be sourced in Ohio, but that about 42% of the value of scrap metal will come from Ohio suppliers (though from beyond Jefferson County). Other important commodities, like wholesale distribution, rail and truck transportation, electricity, and natural gas, are modeled as being supplied largely by Ohio companies, many local to Jefferson County. Altogether, the models predict that just under 10% of the value of all inputs will come from local Jefferson County businesses and 32% from businesses in Ohio.

Acero Junction management anticipates being able to produce \$1.32 billion worth of hot rolled steel coils in the fourth quarter of 2018. When we apply this production function to the making of that much steel, the estimated value of inputs purchased in Jefferson County is about \$114 million and the value of inputs purchased from all Ohio vendors is estimated to be around \$377 million. The latter figure is very close to management's own estimates of Ohio spending. The economic richness and industrial detail of the IMPLAN modeling system, as well as the sound, peer-reviewed, methodology gives us confidence in the ultimate predictions of regional economic impact based on the custom model.

Table 1. Top Commodities Purchased per \$1 million of Acero Junction Production Inputs in Jefferson County & Ohio

	from everywhere	from Jefferson County suppliers	from Other Ohio suppliers
Iron and steel and ferroalloy products	\$392,232	\$0	\$0
Scrap	\$292,340	\$731	\$122,051
Wholesale trade distribution services	\$62,097	\$25,581	\$27,163
Electricity transmission and distribution	\$35,798	\$22,116	\$6,072
Rail transportation services	\$29,973	\$11,698	\$7,682
Nonferrous metal (exc aluminum) smelting and refining	\$20,142	\$0	\$673
Truck transportation services	\$16,414	\$10,818	\$5,271
Other basic inorganic chemicals	\$15,174	\$49	\$2,898
Bricks, tiles, and other structural clay products	\$13,065	\$0	\$8,375
Natural gas distribution	\$12,112	\$6,311	\$4,644
Ferrous metals	\$9,981	\$0	\$2,962
Other miscellaneous chemical products	\$7,477	\$56	\$2,624
Lime	\$5,888	\$0	\$4,293
Industrial gases	\$5,394	\$0	\$3,973
Maintained and repaired nonresidential structures	\$4,782	\$3,345	\$1,170
Management of companies and enterprises	\$4,612	\$473	\$3,975
Architectural, engineering, and related services	\$4,301	\$755	\$2,612
Petroleum lubricating oil and grease	\$4,140	\$1	\$2,261
Ground or treated mineral and earth products	\$3,547	\$0	\$836
other commodities not shown	\$60,531	\$15,437	\$14,046
Total, all commodities	\$1,000,000	\$97,370	\$223,583

Source: IMPLAN version 3 input-output models of Jefferson County, Ohio and the State of Ohio, using 2015 economic data.

ECONOMIC IMPACTS

Based on that method, the IMPLAN model uses annual economic data to provide reasonable estimates of statewide effects on sales, jobs, and payrolls for export-based expansions or contractions of any of 536 industries in Ohio. In Table 2, I summarize the results of the IMPLAN simulations I ran on the customized Jefferson County and State of Ohio models based on production estimates for the fourth quarter of 2018, when the plant is expected to be operating at full capacity. The table is divided into sections covering the estimated impacts within Jefferson County, the spread to the rest of Ohio, and the Ohio totals. The Other Counties in Ohio impact is actually inferred from the difference between the two models run, but is useful for illustrative purposes. A discussion of the relevant economic terms follows the table.

**Table 2. Estimated Local and Statewide Impact of Acero Junction Plant
Based on Fourth Quarter 2018 Projections**

Impact Type	Employment	Labor Income	Value Added	Output
Jefferson County, Ohio				
Direct Effect	320	\$24,000,000	\$143,000,000	\$1,320,000,000
Indirect Effect	643	\$37,390,178	\$73,718,667	\$145,867,747
Induced Effect	303	\$10,274,146	\$19,367,951	\$34,293,505
Total Effect	1,266	\$71,664,324	\$236,086,617	\$1,500,161,252
<i>Implied Multiplier</i>	<i>3.96</i>	<i>2.99</i>	<i>1.65</i>	<i>1.14</i>
Other Counties in Ohio				
Direct Effect	0	\$0	\$0	\$0
Indirect Effect	1,013	\$72,705,606	\$126,034,804	\$257,975,138
Induced Effect	831	\$38,603,419	\$70,127,012	\$121,691,926
Total Effect	1,844	\$111,309,025	\$196,161,816	\$379,667,063
State of Ohio Total				
Direct Effect	320	\$24,000,000	\$143,000,000	\$1,320,000,000
Indirect Effect	1,656	\$110,095,784	\$199,753,471	\$403,842,885
Induced Effect	1,134	\$48,877,565	\$89,494,963	\$155,985,431
Total Effect	3,110	\$182,973,349	\$432,248,433	\$1,879,828,315
<i>Implied Multiplier</i>	<i>9.72</i>	<i>7.62</i>	<i>3.02</i>	<i>1.42</i>

Source: IMPLAN version 3 input-output models of Jefferson County, Ohio and the State of Ohio, using 2015 economic data. Dollar figures are measured in 2015 dollars.

For each of several impact types (Employment, Labor Income, Value Added and Output), the IMPLAN model begins with a direct effect – here, a change of 320 jobs. The direct effect would be the change at the plant, from nonoperating to 320 employees earning \$24 million in compensation producing \$1.32 billion worth of hot rolled steel coils. Labor income includes fringe benefits (both privately provided, such as health insurance or retirement fund matches, and government provided, such as Social Security and Medicare payments) as well as proprietor income (e.g. self-employment and unincorporated small businesses). Value added refers to the value of the product that is not tied to the prices of the purchased inputs. It is the difference between the sales value of the steel coils and the value of all the purchased inputs, so it is the additional value gained during the production process. Since an input of one industry is the output of an industry upstream in the production process, focusing on value added avoids double counting. State level GDP, for example, is just the sum of the value added at all

businesses in the state (not the sum of their output/sales). Given a Direct Effect, the IMPLAN model calculates an Indirect Effect, Induced Effect, Total Effect, and an economic Multiplier.

The Indirect Effect in Table 2 refers to the linkages between the exporting industry (hot rolled coils) and its industrial vendors (raw materials, transportation, electricity, tools, computers, insurance, etc.). When the exporting industry expands or contracts, it raises or lowers its purchases from its vendors, thus changing their employment and payrolls. Of course, the vendors also purchase goods and services from each other, so that the total indirect effect includes all the inter-industry linkages.

The Induced Effect refers to the impact of the new sales in the exporting industry (hot rolled coils) on the local economy through the rounds of re-spending of the additional household income caused by the operation of the plant. Regional sales of cars, groceries, building supplies, banking services, and so on are all sensitive to growth in disposable income, as are donations to nonprofit groups, churches, and charities. The induced effect includes the household spending of all households affected directly and by the indirect linkages. The Total Effect is the sum of the Direct, Indirect and Induced Effects.²

The table clearly shows that the Acero Junction plant would have considerable impact both locally and statewide. Within Jefferson County alone we could expect as many as 1,260 total jobs being supported by the operation of the plant (including the jobs at the plant). Those jobs would infuse the local economy with an additional \$71.6 million in labor income. Those figures represent roughly 5 and 6 percent of current jobs and labor income in Jefferson County, so the impacts would be quite noticeable. Those jobs would be associated with approximately \$236 million in value added, almost 9% of current value added in Jefferson County. A bit more than half of the jobs and income would be due to business-to-business spending, both between Acero Junction and its suppliers and between those suppliers themselves. About a quarter of the jobs and \$10 million of income would be due to the household spending of Acero Junction employees and those households affected by the added business-to-business spending (induced effects tend to result in lower average income per job because much of the employment is in lower paying retail and personal service industries).

² The distinction between Indirect and Induced Effects is evident in the simulation summarized in Table 2. For each Impact Type, the largest contributor to the Total Effect is the Indirect Effect, or inter-industry spending. The Induced Effect is significant, but is much lower than the Indirect Effect. This model is reflecting the fairly dense network of suppliers to the steel industry located in Ohio.

Beyond Jefferson County, all that activity generated by the Acero Junction plant could be expected to benefit the rest of Ohio by supporting about 1,840 jobs with annual labor income of \$111.3 million. Well over half of those jobs and nearly two-thirds of the labor income would come from the indirect effect of business-to-business spending.

In sum, the Acero Junction plant operations would likely benefit the state of Ohio by supporting an additional 2,800 jobs in addition to the 320 jobs at the plant itself. Those jobs would add about \$159 million in labor income to state households. With the affected businesses adding around \$289 million to the state GDP.

A few things about the multiplier lines in the table are worth mentioning. The IMPLAN Multipliers allow a reasonable prediction of the total statewide economic impact of a change such as the Direct Effect. For example, looking at the last entry in the Employment column of Table 2, the estimated job multiplier for the Acero Junction plant in Ohio is 9.72, meaning that for every job at Acero Junction, another 8.72 jobs are created elsewhere in Ohio. Similarly, the multiplier for Labor Income for Ohio in Table 2 is 7.62, meaning that for every dollar of income created at Acero Junction another \$6.62 in income is created in other Ohio industries. The Output Multiplier for Ohio, 1.42 as shown in Table 2, measures the total statewide revenues of companies divided by the direct Acero Junction revenues of \$1.32 billion. The Output Multiplier of 1.42 means that companies in Ohio see an additional \$0.42 in sales when Acero Junction sales rise by one dollar. Finally, the Value Added Multiplier estimates the sales dollars that 'stick' to Ohio. Value added refers to the portion of total sales that is accounted for by regional companies and which stimulate the regional economy.³ The Value Added Multiplier of 3.02 means that companies in Ohio add \$2.02 in value to the Ohio economy for every \$1 added by the Acero Junction plant operations. The distinction between Output and Value Added is important in regional economic studies since much of what goes into the total value of a product is intermediate goods and services purchased from vendors outside the region, and thus local economic activity can affect many regions.

Most people familiar with economic multipliers will recognize that the employment and labor income multipliers for the state of Ohio are unusually large. Most of the time multipliers are less than 3, and often closer to 2 in value. Not many employment or

³ For an insightful example of value added, consider the purchase of a new car at a Steubenville area dealership. If a resident spent \$25,000 on a new Ford Escape, most of the dollars would flow immediately to the manufacturer of the car, built in Louisville with top management in Detroit. Only a few thousand dollars in dealer prep work and commissions would be captured in the Marietta economy. So, in economic parlance, the value of output (sales) would be \$25,000, and value added might be only \$3,000.

income multipliers are greater than 4. However, this is an unusual case because the value of the output is so great compared to the number of workers required. It is very rare that the work of just 320 people generates the demand for \$370 million worth of intermediate inputs. Supplying those goods requires a considerable number of people, many more than are actually employed at the Acero Junction plant. The value added and output multipliers are about what we might intuitively expect because the suppliers produce far less value added and output per worker than will the Acero Junction plant, thus depressing those multipliers compared to the job and income multipliers.

TAXES AND FISCAL IMPACTS

In this section, I provide estimates of the total regional tax and fiscal impacts. The estimated tax and fiscal impacts flow directly from the IMPLAN modeling system just discussed, supplemented with company records and an analysis of state and local tax rates, and thus require a more extensive discussion. First, here is a short summary of the economic impacts with just those details relevant to fiscal analysis (Table 3).

Table 3. Estimated Local and Statewide Economic Impact of Acero Junction Plant

Direct Impacts	
Employment, 2018	320
Wages and salaries paid in 2018	\$17,689,669
Fringe benefits paid in 2018*	\$6,310,331
Total employee compensation	\$24,000,000
Total Economic Impacts **	
Jobs, Jefferson County	1,266
Jobs, Statewide	3,110
Labor Income, Jefferson County	\$71,664,324
Labor Income, Statewide	\$182,973,349

* Includes company payments for payroll taxes, retirement plans, health and life insurance. Following methods used by the US Bureau of Economic Analysis, employee compensation also includes company payments for unemployment insurance and workers' compensation plans.

** Total economic impacts estimated using IMPLAN version 3 input-output models of Jefferson County and State of Ohio, constructed using economic data for 2015.

Taxes and Fiscal Impacts

To reasonably estimate the fiscal impacts of an industrial expansion or contraction in a region, analysts must rely on company records and local sources of data. I turn now to a discussion of the types of taxes and how I link fiscal impacts to economic impacts. My

estimates are summarized in Table 4. Since the Acero Junction plant has no tax history as it will be operating, there are no company records of direct tax payments made to local and state governments for property taxes, sales taxes, commercial activity taxes, and energy taxes, as shown in the first three lines of the table. Fortunately, property tax information is available online, but lines 2 and 3 needed to be estimated.

There are ten land parcels owned by Acero Junction Steel Works, LLC (Mingo Junction Steel Works LLC in the official county records), in the online property tax records of Jefferson County. They have a total market value of about \$9.5 million and taxable value of approximately \$3.3 million for 2016. Total taxes paid to all jurisdictions was \$185,416.

The Kilowatt Hour Tax for electricity in line 2 was estimated based on a company electricity usage estimate of 850,373,000 KWh and the current state alternative tax calculation of \$0.00257 per KWh for the first 500 million KWh and \$0.001832 per KWh beyond 500 million KWh. This works out to \$1,926,883 paid to the state of Ohio.

To estimate state sales taxes paid directly by the company (Line 3) I used the estimates of Jefferson County and Ohio purchases of manufacturing commodities generated by the custom industry production function (from which Table 1 was created). This excludes all service purchases. I then applied the local and state sales tax rates to those figures. As a check I compared the ratio of sales taxes paid to Ohio purchases for a similar report on a ferroalloy steel plant I conducted several months earlier for which the company provided me the tax information from their records.

Line 3 also includes the Commercial Activity Tax (CAT). I used the state's fiscal year 2016 CAT returns report to estimate an effective tax rate, relative to taxable gross receipts, for manufacturing firms. I then applied the ratio of Ohio sales to total sales from the previously mentioned ferroalloy steel plant report to estimate the potentially taxable gross receipts from the Acero Junction plant and applied the effective tax rate to that figure. In sum, I estimate the sales and commercial activity taxes to be paid directly by the company will be about \$2,876,699.

The impacts on governments are much greater than these direct payments, since employees end up paying an array of state and local income and sales taxes. These estimated tax revenues are related both to the direct Acero Junction wages and salaries and to the indirect and induced labor income statewide, as predicted by our IMPLAN models. I estimate that the total annual fiscal impact in Ohio will be \$18.9 million, as summarized in Table 4, with the methods of estimating lines 4 through 7 discussed below.

Table 4. Estimated Fiscal Impacts of Acero Junction Plant

Line	Total Fiscal Impacts	
1	Local property taxes paid directly by company	\$185,416
2	State of Ohio electricity taxes paid directly by company	\$1,926,883
3	State of Ohio sales and commercial activity taxes paid directly by company	\$2,876,699
4	State of Ohio individual income taxes linked to payrolls	\$4,417,954
5	State of Ohio sales taxes linked to payrolls	\$5,620,521
6	City and Village income taxes linked to payrolls	\$2,551,527
7	Local sales taxes linked to payrolls	\$1,332,321
Total State and Local Taxes		\$18,911,322

Note: Of the tax in line 6, \$953,265 is collected by Jefferson County, the remainder is collected by jurisdictions throughout Ohio. Of the tax in line 7, \$717,979 is collected in Jefferson County, the remainder is collected by counties throughout Ohio.

Because I used both Jefferson and Ohio IMPLAN models, I can estimate the sales and income tax revenues linked to the Acero Junction plant at both the state and local levels. Employees pay state and local sales taxes when they spend their wages in the local economy, and are also liable for state and local income taxes in Ohio.

In addition, all of the fiscal impacts in lines 4 through 7 in Table 4 are calculated based on three categories of impact. There is a fiscal impact due to the direct, indirect and induced effect that occurs in Jefferson County, and there is a combined indirect and induced effect that occurs in businesses and households spread throughout Ohio.

Ohio State Sales and Income Tax

Based on data from 2010 to 2014, all workers in Jefferson County have earned on average about \$1.25 billion annually in labor income. We also know that, over the same time in the county, average annual state sales tax receipts were about \$40.3 million and average annual state income tax receipts were about \$32 million. By comparing the ratio of tax receipts to regional labor income, I calculate 'effective' tax rates and use those to estimate the amount of Ohio income and sales taxes linked to Acero Junction's payroll. The calculations are shown in Table 5. Although Table 5 shows the five-year average rates, Table 4 is based on the effective rates for 2014 because the effective rates have been trending over time as the state and some local sales tax rates have been adjusted upwards and the state income tax rates have been adjusted downwards in recent years.

For example, residents of Jefferson County paid about \$29.7 million in Ohio state income taxes in 2014. This is 2.47 percent of the labor income earned by workers in the

county that year. Similarly, the effective state sales tax rate is 3.80 percent of labor income, and the effective rate for the Jefferson County local sales tax is 0.99 percent. Not shown in the table, but used to calculate statewide fiscal effects resulting from activity beyond Jefferson County, are the corresponding statewide effective rates of 2.36 percent for state income taxes, 2.58 percent for state sales taxes, and 0.55 percent for county sales taxes.

We apply the Jefferson County effective rates to the labor income effect in the county and the statewide effective rates to the labor income effect that is spread out over the rest of the state. Calculated this way, in lines 4 and 5 I estimate that state government revenues attributable to the Acero Junction plant will be \$4.42 million in income taxes and \$5.62 million in sales taxes.

Table 5. Effective Tax Rates, Jefferson County, Ohio

	2010	2011	2012	2013	2014	average, last five years
Economic and Tax Receipt Data						
Labor income, by place of work	\$1,426,821,000	\$1,268,391,000	\$1,173,943,000	\$1,211,378,000	\$1,202,924,000	\$1,256,691,400
Ohio state individual income tax liability	\$29,619,384	\$33,119,563	\$36,923,118	\$30,415,930	\$29,729,564	\$31,961,512
Ohio state sales tax receipts	\$36,177,699	\$36,922,899	\$39,736,063	\$43,081,556	\$45,742,345	\$40,332,112
Jefferson County local sales tax receipts	\$9,866,645	\$10,069,882	\$10,837,108	\$11,539,702	\$11,932,786	\$10,849,225
Effective Tax Rates, using Labor Income						
Ohio state income tax	2.08%	2.61%	3.15%	2.51%	2.47%	2.56%
Ohio state sales tax	2.54%	2.91%	3.38%	3.56%	3.80%	3.24%
Jefferson County local sales taxes	0.69%	0.79%	0.92%	0.95%	0.99%	0.87%

Sources: compensation data from US Bureau of Economic Analysis; tax data from Ohio State Department of Revenue.

Local Income and Sales Taxes

Note that employees of the Acero Junction plant not only pay state income and sales taxes, they also pay local income and sales taxes. The annual impact of these payments can be reasonably estimated, too, and are significant.

Seven municipalities in Jefferson County levy a local income tax, with total tax revenues of \$15.2 million in 2014. This tax applies to the wages, salaries and most other income of city and village workers. I assume that Acero Junction workers pay the 1.98 percent village of Mingo Junction tax rate. I do not know the distribution of the other jobs in Jefferson County impacted by Acero Junction, nor how much of the associated incomes are subject to local income taxes, but it is reasonable to assume they mirror the overall geographic distribution of jobs in the county and we can divide the \$15.2 million in local income tax revenues by the labor income in the county to arrive at an effective tax rate of 1.27 percent. Similarly, for the payroll associated with the indirect and induced

effects beyond Jefferson County, we use the statewide average effective rate for municipal income taxes of 1.44 percent. Thus, I estimate that Acero Junction employees and those of other impacted companies in the county and beyond will be responsible for about \$2.55 million of local income tax revenue (line 6 in Table 4). Of that, about \$953,000 would be collected in Jefferson County.

Beyond the state government receipts from the 5.75 percent state sales tax, local governments in Ohio collected over \$1.8 billion in sales taxes in 2014. Jefferson County levies a 1.5 percent sales tax, resulting in \$11.9 million in collections during 2014. We apply the effective rate of 0.99 percent discussed above and in Table 5 to the direct and spinoff effects within Jefferson County, and the effective rate of 0.55 percent to the spinoff effects occurring outside of the county. Applying these rates to the appropriate total labor income effect, I estimate that \$1.33 million in local sales taxes will be generated as a result of the Acero Junction plant (line 7 of Table 4). Of that, about \$718,000 would be collected in Jefferson County.

Although harder to measure, additional tax impacts are also likely. For example, corporations around the region are liable for state commercial activity taxes, and there are many such businesses linked to Acero Junction operations. Unemployment insurance taxes, insurance premiums taxes, building permit fees, motor vehicle sales taxes, and many other business tax categories would see some increase in receipts if the plant were begin operating. Employees would also pay more in the way of gasoline taxes and property taxes, and there would be a positive effect on the regional real estate market.

NOTE ON MANUFACTURING'S IMPORTANCE IN THE JEFFERSON COUNTY AREA

While not the primary focus of this report, it is useful to highlight the relative concentration of manufacturing in the Jefferson County area economy. Jefferson County supported 3,500 manufacturing jobs in 2002, but was down to just 1,200 by 2015. That was 10.9 percent of all jobs in all industries in the county in 2002, and about 19 percent of total labor compensation (due to the high average annual pay of manufacturing jobs) in the county. Now manufacturing jobs account for just 4.3 percent of all jobs and 7.8 percent of labor compensation in Jefferson County. I organized data on jobs and compensation by industry over the past nine years, and summarized it in Table 6. Note how much manufacturing employment has collapsed in Jefferson County, especially compared to the state of Ohio and the nation as a whole. While manufacturing employment has dropped statewide and nationwide it has not been nearly as steep a drop as Jefferson County experienced. Jefferson County is now actually less dependent on manufacturing as the U.S. in terms of both employment and labor compensation.

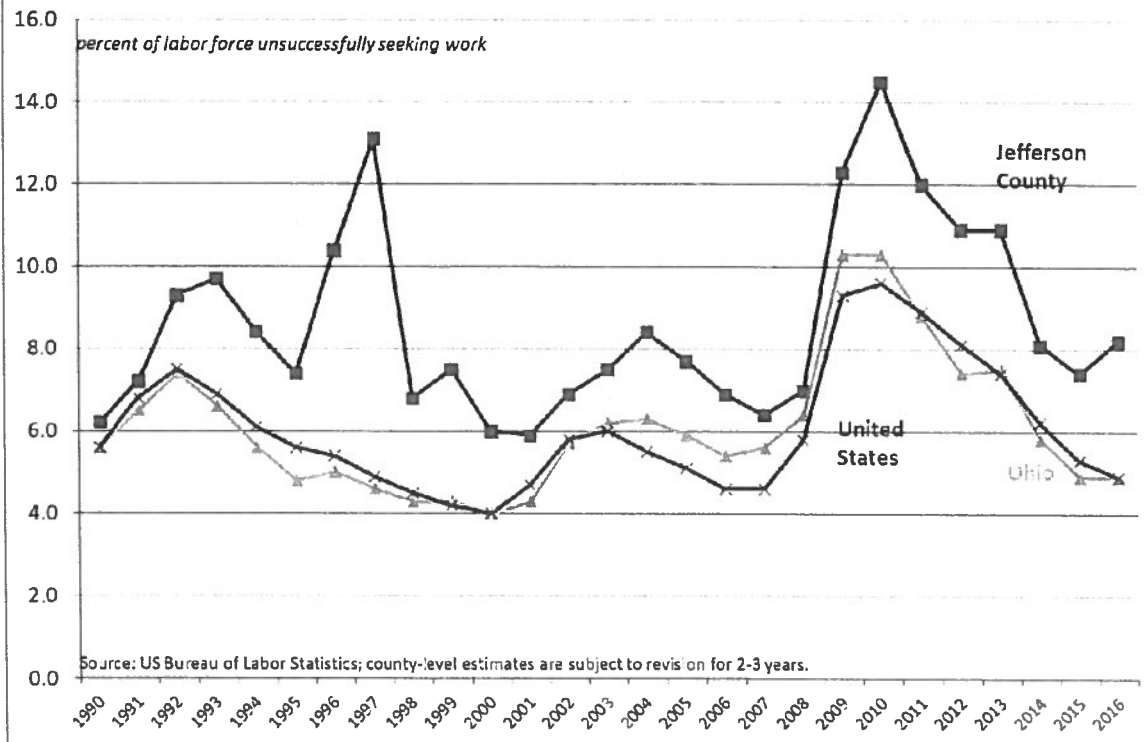
Table 6. Manufacturing's Economic Importance in Jefferson County

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Manufacturing's Share of All Jobs										
Jefferson County, OH	9.2%	9.1%	9.0%	6.2%	5.7%	5.8%	5.5%	4.3%	4.1%	4.3%
State of Ohio	12.1%	11.7%	11.3%	10.1%	10.0%	10.2%	10.3%	10.3%	10.4%	10.4%
United States	8.3%	8.0%	7.8%	7.2%	7.0%	7.0%	7.0%	7.0%	6.9%	6.9%
Manufacturing's Share of Total Labor Compensation										
Jefferson County, OH	19.5%	18.5%	17.4%	10.2%	9.3%	9.8%	9.6%	7.7%	8.0%	7.8%
State of Ohio	18.8%	18.3%	17.5%	15.6%	15.6%	15.9%	15.8%	15.7%	15.8%	15.7%
United States	12.3%	12.0%	11.6%	10.8%	10.7%	10.7%	10.7%	10.5%	10.5%	10.4%

Source: US Bureau of Economic Analysis

Jefferson County's manufacturing base began eroding thirty years ago, with many losses in the early 1990s. At a time when much of the rest of the country was doing quite well, Jefferson County's unemployment rate shot up to more than ten percent in the mid-1990s and was well above the state and national rates for the entire decade. The Great Recession of 2008-09 triggered another sharp drop in manufacturing employment and the area's unemployment rate has remained well above the state and national rates (Figure 1).

Figure 1. Unemployment Rates
Jefferson County, State of Ohio, United States



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Summary: Application Joint Application for Approval of an Economic Development and Reasonable Arrangement electronically filed by Mr. Michael L. Kurtz on behalf of Acero Junction Inc.