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Behalf of: ARMSTRONG & OKEY INC

*Summary of document: PROCEEDINGS BEFORE SARAH
PARROT ON WEDNESDAY, AUGUST 28, 2013*

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BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

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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 10:00
a.m. on Wednesday, August 28, 2013.

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(CONFIDENTIAL PORTION.)

MR. BERGER: Your Honor, can we have marked as OCC Exhibits No. 2, 3, and 4, the three exhibits I just handed out, the first one, which will be OCC Exhibit No. 2, is a copy of the pages from HARBOR Intelligence's monthly forecasts from February 2009 to August of 2013 that were provided -- these are one page from each of those reports that were provided to us in discovery.

EXAMINER PARROT: Just to make sure the record's clear, can you tell me what the heading of that document is, because I don't think that's the

1 one you had on top of your stack, so I just want to
2 make sure what it is.

3 MR. BERGER: It has a green page and it
4 says "In our opinion, it seems reasonable" at the top
5 of the page.

6 EXAMINER PARROT: Okay. Very good.
7 Thank you.

8 MR. BERGER: The second exhibit says --
9 is marked Confidential and says "Harbor Aluminum
10 Forecasts Versus Actual Base Case (Realistic)
11 Scenario February 2009 to August 2013." This exhibit
12 takes the numbers on Exhibit 2, uses the realistic
13 scenario numbers -- uses the realistic scenario
14 numbers which I'll go through with the witness.

15 And Exhibit No. 4 just has the annual
16 forecasts included in those realistic scenario
17 numbers, and you'll see in the first column on each
18 of these sheets is the actual price, the first two
19 columns are the month and the actual price for
20 Exhibit 3 and the year and actual price for
21 Exhibit 4.

22 And then each column on these exhibits
23 has a percentage error calculation as well.

24 EXAMINER PARROT: Thank you.

25 (EXHIBITS MARKED FOR IDENTIFICATION.)

1 MR. BERGER: The exhibits have been
2 marked, correct?

3 EXAMINER PARROT: Yes, they have.

4 MR. BERGER: Okay. Thank you.

5 Q. (By Mr. Berger) Mr. Vazquez, did your
6 company, HARBOR Intelligence, prepare the reports
7 that are part of OCC Exhibit No. 2?

8 A. Yes, we prepared them.

9 Q. And if you look on the first page of that
10 exhibit, do you see where February has bold numbers?

11 A. Yes.

12 Q. February 2009.

13 A. Yes, I see that.

14 Q. Does that mean -- does that mean that the
15 February prices have become actual numbers?

16 A. Correct.

17 Q. And the numbers after that reflect HARBOR
18 Intelligence's forecasts for the succeeding months
19 and year; is that correct?

20 A. Correct.

21 Q. Now, if you look at OCC Exhibit 3, you'll
22 see that -- if you look at the February 9 HARBOR
23 forecast, would you agree with me you see the
24 forecast numbers for the realistic scenario shown on
25 that page 1 there?

1 A. Correct.

2 Q. And I know you don't have time to go
3 through all of these right now, but have you looked
4 at these numbers before in the context of the
5 deposition and determined that the numbers were
6 consistent with what is on your reports?

7 A. We talked about this during the
8 deposition and overall the numbers looked like they
9 were part of our Aluminum Intelligence reports,
10 although I didn't analyze each data point.

11 Q. Okay.

12 A. But overall it seems like these are the
13 numbers that we use.

14 Q. Now, I would note to you that I've added
15 a couple of months for two reports that I didn't have
16 in this document before.

17 A. Okay.

18 Q. And also for August 2013 since we just
19 received that document at the end of last week.

20 Do you also agree with the percentage
21 error calculation shown here reflecting the
22 difference between your projection and -- between
23 your forecast and the actual prices indicated?

24 A. It looks like the margin of error seems
25 to be correct.

1 Q. Thank you.

2 And could you say the same thing with
3 respect to the Exhibit 4 that shows the annual
4 numbers?

5 MR. PETRICOFF: Your Honor, could I have
6 the question read back?

7 EXAMINER PARROT: You may.

8 (Record read.)

9 A. It seems they are the same.

10 Q. Thank you. So what you're saying is that
11 the annual numbers reflect an accurate calculation of
12 the margin of error for your reports?

13 A. Yes.

14 Q. Thank you.

15 Now would you look at OCC Exhibit No. 3
16 and, in particular -- the monthly forecast, and in
17 particular would you look at your forecast, the
18 September 2009 for July of 2010. And do you see
19 where you have forecast in September 2009 for July of
20 2010 of \$2,985 per metric ton of aluminum and the
21 actual price turned out to be \$1,988?

22 A. I see that.

23 Q. And that there's a margin of error there
24 of 50 percent approximately.

25 A. I see that.

1 Q. Thank you.

2 And with respect to your forecasts
3 beginning in August of 2010 for October 2011 through
4 December 2012, would you agree that those forecasts
5 were significantly too high, generally speaking?

6 A. Yes. They were two -- double digit
7 higher than the actual price.

8 Q. And that includes a forecast in July of
9 2011 on the third page of a price for August 2012 of
10 \$3,134, and the actual price turned out to be
11 \$1,838 per metric ton; is that correct?

12 A. Correct.

13 Q. And that was 70.5 percent too high; is
14 that correct?

15 A. Correct.

16 Q. And with respect to 2000 -- your forecast
17 for 2013 prices, would you agree that starting in
18 July 2012 your forecasts were as much as 38 percent
19 too high for July 2013, if you look on page 4 of the
20 exhibit?

21 A. Correct.

22 Q. Now, with respect to OCC Exhibit 4, the
23 annual forecast, would you agree that your forecast
24 for 2010 prices were as much as 20 percent off for
25 that year?

1 A. Can you repeat the monthly --

2 Q. If you look at January 2010 --

3 A. Yes.

4 Q. -- the forecast there for 2010 prices was
5 \$2,629 per metric ton and the actual price turned out
6 to be \$2,173, which is 20.98 percent too high; is
7 that correct?

8 A. Correct.

9 Q. Your annual forecast for 2011 prices,
10 however, were very close, only 5 to 6 percent off.
11 Would you agree with that?

12 A. Yes, I would.

13 Q. But your forecast for 2012 prices for the
14 annual numbers was as much as 53 percent too high if
15 you look in your forecast from April -- from April
16 2011 for 2012; is that correct?

17 A. No. Let me clarify. It's not annual
18 forecast. It's the monthly forecast. Because when
19 we say "annual forecast" in the industry, we refer to
20 the average of the year. So this is the monthly
21 forecast of one year ahead rather than the average or
22 annual forecast per se.

23 Q. But the number of \$3,100 that's shown on
24 page 3 as your forecast from April 2011 for the year
25 2012, that's a forecast of the annual price for 2012,

1 isn't it?

2 A. No. No. No, it's not. No. That's the
3 forecast for the monthly price of that particular
4 month. So these are not annual forecasts. These are
5 monthly forecasts.

6 Q. Let's go back to OCC Exhibit No. 2 and
7 look at your April --

8 A. If you want to have the annual, you have
9 to average all of the monthly forecasts. If you want
10 to have a feel of what was the average annual
11 forecast we had for, let's say 2010 or 2011, you have
12 to average all of the months to come up with the
13 annual.

14 Q. Okay. But let's look at your forecast
15 from April 2011, and I think we can determine which
16 page that is if we look at the bolded figure on the
17 page, if the last bolded figure is April 2011.

18 MR. BERGER: And the pages aren't
19 numbered, your Honor, so . . .

20 A. From page 6 of this exhibit on, that's
21 where you find the annual forecast.

22 Q. Well, I'm talking about the annual
23 forecast, okay?

24 A. That's what I want to make the
25 indication. One thing is the annual forecast and

1 another thing is the monthly forecast for a
2 particular year.

3 Q. Well, I'm trying to -- let's go to the
4 annual -- to that page that I'm talking about from
5 the April 2011 forecast that shows May 2011 forward.

6 MR. PETRICOFF: Your Honor, just so I can
7 follow along, which exhibit are you referring to?

8 MR. BERGER: I'm on OCC Exhibit 2.

9 MR. PETRICOFF: All right. And what
10 month are you looking at?

11 MR. BERGER: I'm on month of April 2011.
12 The last month that's bolded, the April 2011. And it
13 has a price for April 2011, the actual price of
14 \$2,669 and there's a page --

15 EXAMINER PARROT: Fifty-one?

16 Q. Fifty-one. The one that has a 51 on it.
17 And do you see at the bottom there where it has a
18 forecast realistic scenario for 2012 of \$3,100?

19 A. Uh-huh.

20 Q. Isn't that an annual forecast for the
21 year 2012?

22 A. Yes, but this is an annual forecast and
23 what we were analyzing before is monthly forecasts.

24 Q. No, I'm on OCC Exhibit 4.

25 A. My comment came from this analysis that

1 you were referring to because you were saying your
2 annual forecast and we were talking about monthly
3 forecasts; that's where my comment comes. So it
4 seems like you were misusing the term when referring
5 to this by saying that our annual error was
6 50 percent when the actual annual error was the
7 average of all of those errors.

8 Q. Now, I'm turning to the other exhibit.
9 Exhibit 4.

10 A. No. No. I know. You're talking about
11 this one.

12 Q. No.

13 A. Or the other one. They're basically the
14 same. It's the same interrogatory that you were
15 following.

16 Q. You should have three exhibits there, do
17 you not?

18 A. Yeah, I have one here which is the green
19 one, the one we discussed during our deposition, and
20 the one you just gave me today.

21 Q. No, I gave you two -- there should be
22 three exhibits there that you received today.

23 A. And then I have another one here.

24 Q. That's Exhibit 4 that has the annual
25 forecasts on it.

1 MR. BOEHM: Your Honor, I'm wondering --
2 I'm now totally confused myself. I'm wondering if
3 OCC could go through these again and tell us which is
4 which because I may have numbered mine wrong.

5 MR. BERGER: The annual forecast only has
6 the year in the column on the left.

7 MR. BOEHM: So the annual --

8 EXAMINER PARROT: That's Exhibit 4. OCC
9 Exhibit 4.

10 MR. BOEHM: Okay, I'm good on that.

11 EXAMINER PARROT: Do you have that?

12 MR. BERGER: The monthly forecast has --

13 THE WITNESS: Here.

14 EXAMINER PARROT: That's the one he was
15 referring to.

16 THE WITNESS: Okay.

17 MR. BOEHM: The first page says
18 "February-09, 1329" in the left-hand margin, right?

19 MR. BERGER: That's the monthly forecast.

20 MR. BOEHM: Is that 3?

21 EXAMINER PARROT: That's OCC Exhibit 3,
22 it has the months listed.

23 MR. BERGER: It has the month listed on
24 the left, that's OCC Exhibit 3.

25 MR. BOEHM: And 2 is the green one.

1 MR. BERGER: Yes.

2 MR. BOEHM: And is there another one?

3 EXAMINER PARROT: Yes. OCC Exhibit 4 has
4 only years listed in the left-hand column.

5 MR. BOEHM: No, I'm sorry, your Honor, I
6 just named three of them. Is there another one?

7 MS. GRADY: No, 2, 3, and 4.

8 EXAMINER PARROT: Two, 3, and 4. You're
9 dealing with three total exhibits right now that are
10 numbered 2, 3, and 4.

11 MR. BOEHM: Thank you.

12 Q. (By Mr. Berger) Could you mark the
13 exhibits that I provided today as Exhibits 2, 3, and
14 4 for your information so we don't get confused
15 again. And the annual one is --

16 A. What's the number of this exhibit?

17 Q. The green one is OCC Exhibit 2.

18 A. Two.

19 Q. The monthly forecast I handed out today
20 is OCC Exhibit 3.

21 A. Okay.

22 Q. And the annual forecast is OCC Exhibit 4.
23 Right now I'm looking at page 3 of OCC Exhibit 4 --

24 A. Okay.

25 Q. -- where I compare the annual forecast to

1 the annual prices.

2 A. Okay.

3 Q. And would you agree with me that your
4 margin of error from your forecast for annual 2012
5 prices in April 2011 was 53.47 percent?

6 A. Correct. Correct.

7 Q. Thank you.

8 And with respect to your forecast for
9 2013 prices for the annual, you projected a price in
10 April and July of 2011 for the annual price for 2013
11 of \$3,400; is that correct?

12 A. Correct. Yeah.

13 Q. And what is your projection of 2013
14 prices in total now currently?

15 A. Today? It's 1923.

16 Q. Would you agree with me that in
17 forecasting aluminum prices there are always factors
18 that can't be accurately predicted?

19 A. There are factors that you cannot
20 anticipate, yes.

21 Q. Would you agree that one factor that you
22 didn't accurately predict for the current market
23 cycle was the psychological effect Europe had on the
24 market?

25 A. Yeah, we didn't anticipate that effect.

1 Q. Would you agree with me that since you
2 haven't provided your long-term forecast for the
3 period before 2010, we can only determine the extent
4 of accuracy that you've had for long-term forecasting
5 for the last -- based on the last three years?

6 A. With that particular report, I think
7 you're pretty limited in assessing how accurate we
8 are in the long run and how we compare to the rest of
9 the market, yes.

10 Q. Thank you.

11 MR. BERGER: That's all I have. Thank
12 you.

13 Thank you, Mr. Vazquez.

14 THE WITNESS: Thank you.

15 EXAMINER PARROT: Thank you. Let's go
16 off the record.

17 (Discussion off the record.)

18 EXAMINER PARROT: Let's go back on the
19 record.

20 (OPEN RECORD.)
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(CONFIDENTIAL PORTION.)

EXAMINER PARROT: All right. At this point we are going back into the confidential portion of the transcript. Mr. Oliker.

MR. OLIKER: Before we do that, can we just clean up the one issue that Howard and I discussed? I'm sorry, your Honor.

EXAMINER PARROT: Actually, let's do that when we are going through the process of moving exhibits.

MR. OLIKER: Okay.

Q. (By Mr. Oliker) Mr. Vazquez, your testimony at page 5, you provide forecasts of aluminum prices for 2014 and 2015, correct?

A. Correct.

Q. And those prices are, for 2014, \$2,294 per metric ton and \$2,400 per metric ton, correct?

A. Correct.

Q. Would you agree that those prices reflect

1 base case scenario?

2 A. Yes.

3 Q. Would you agree that your testimony is
4 based upon a June-July 2013 forecast prepared by
5 HARBOR?

6 A. Correct.

7 Q. And would you be able to identify that
8 forecast if I put it in front of you?

9 A. Yes.

10 MR. OLIKER: Your Honor, may I please
11 approach the witness?

12 EXAMINER PARROT: You may.

13 MR. OLIKER: I'd like to mark as IEU-Ohio
14 Exhibit No. 5 the HARBOR 2013 June-July monthly
15 forecast.

16 (EXHIBIT MARKED FOR IDENTIFICATION.)

17 Q. Mr. Vazquez, do you recognize the
18 document that's been marked as IEU-Ohio Exhibit
19 No. 5?

20 A. Yes.

21 Q. Was this document prepared by you or
22 under your direction?

23 A. Yes, it was.

24 Q. Could you please identify what the
25 document is.

1 A. This is the Aluminum Intelligence report
2 that we released in July of this year.

3 Q. And would you agree that this document
4 provides the basis for the forecast you include in
5 your testimony?

6 A. Yes.

7 Q. Could you turn to page 11 of IEU-Ohio
8 Exhibit No. 5.

9 A. Yes.

10 Q. And if you look at HARBOR base case
11 scenario, under the column for 2014 and 2015, do
12 those numbers match up with the forecast in your
13 testimony?

14 A. Yes, they -- hold on.

15 Yes, they match.

16 Q. And HARBOR attaches a 50 percent
17 probability that the base case scenario will occur,
18 correct?

19 A. Correct.

20 Q. And if you look underneath that, HARBOR
21 attaches a 40 percent probability that the downside
22 scenario will occur, correct?

23 A. Correct.

24 Q. The downside scenario for 2014 is \$1,977,
25 correct?

1 A. Correct.

2 Q. And the downside scenario for 2015 is
3 \$1,887, correct?

4 A. Correct.

5 Q. So the difference between the base case
6 and the downside in 2014 is \$317, correct?

7 A. Correct.

8 Q. And in 2015 the difference is \$513,
9 correct?

10 A. Correct.

11 Q. Could you turn to page 5, please, of that
12 document.

13 A. Yes.

14 Q. Would you agree that the June-July report
15 decreased the probability of the base case scenario
16 occurring in 2013 through 2015 from 60 percent to
17 50 percent?

18 A. Correct.

19 Q. And HARBOR raised the probability of the
20 downside scenario occurring from 2013 to 2015 from
21 30 percent to 40 percent, correct?

22 A. Correct.

23 Q. Would you agree that HARBOR's June-July
24 report also lowered its price forecast for the base
25 case scenario in 2013 from \$1968 to 1923?

1 A. Correct.

2 Q. And would you agree that the June-July
3 report lowered its price forecast for the downside
4 scenario for 2013 from \$1842 to \$1778?

5 A. Correct.

6 Q. The June-July report lowered its price
7 forecast for the 2014 downside scenario from \$2100 to
8 \$1,997.

9 A. Correct.

10 Q. Please turn back to page 11.

11 A. Okay, I'm here.

12 Q. On the second line down where it says
13 "Average Forecast." The average forecast is the
14 average LME forecast from 60 different analysts,
15 correct?

16 A. Correct.

17 Q. And the average forecast provided that
18 aluminum prices will average \$2,131 in 2014 and
19 \$2,268 in 2014, correct?

20 A. Correct.

21 Q. Sorry, I think I stated that incorrectly.
22 You understood that I meant 2015 in the second part
23 of that question, correct?

24 A. Oh, can you rephrase it, please?

25 Q. Sure. The average of those forecasts

1 provided that the aluminum prices will average
2 \$2,131 in 2014 and \$2,268 in 2015, correct?

3 A. Correct.

4 Q. Mr. Vazquez, would you agree that
5 disappointing global end-user demand in China, the
6 U.S., India, Brazil, and Europe has increased bearish
7 sentiment in the market toward aluminum given
8 overproduction and overcapacity and unprecedented
9 overhang of aluminum?

10 A. Can you repeat it, please?

11 Q. You would agree that disappointing global
12 end-user demand in China, U.S., India, Brazil, and
13 Europe has increased bearish sentiment the market has
14 toward aluminum given the overproduction,
15 overcapacity, and unprecedented overhang of aluminum.

16 A. Correct. At that point in time that was
17 the case, yes.

18 Q. And you agree that there is currently a
19 record oversupply of aluminum.

20 A. We have a record nominal overhang of
21 metal, but in terms of weeks of consumption, we
22 don't. So if we are talking about nominal level
23 aluminum metrics, we do have a record, but in terms
24 of how many weeks of consumption that equals to, we
25 don't. So it depends on what metric we want to use.

1 But nominally speaking, yes.

2 Q. And you agree that aluminum production is
3 set to boom in the next six months.

4 A. Aluminum production set to boom in the
5 next six months? I think at this point in July, yes.
6 Mainly in China, two projects at least in India, and
7 one project in the Middle East.

8 Q. Do you agree that LME inventories reached
9 a record high in June 2013?

10 A. Yes. Nominally speaking, yes. We need
11 to remember that LME inventories are only a portion
12 of the equation. We also have Shanghai metrics, we
13 have regional Chinese aluminum metrics, Japanese
14 aluminum metrics, and we have the International
15 Aluminum Institute metrics, some of them are
16 multiyear record lows. So you need to add up all of
17 these different reported inventories to come up with
18 a global number, yes.

19 MR. OLIKER: Could I have one minute to
20 see if I've got any more questions? Thank you.

21 Your Honor, I think that's all the
22 questions I have.

23 EXAMINER PARROT: I have one for you.
24 This entire exhibit, IEU Exhibit 5, is claimed to be
25 confidential; is that correct? Because it's not

1 marked as such. I just want to be sure we're talking
2 about the entire exhibit.

3 MR. DARR: That's the way it was provided
4 to us, your Honor.

5 MR. OLIKER: I believe it's proprietary.

6 MR. PETRICOFF: Your Honor, we would
7 consider this --

8 EXAMINER PARROT: The entire -- okay.

9 MR. PETRICOFF: -- to be proprietary.

10 EXAMINER PARROT: All right.

11 MR. OLIKER: Thank you.

12 EXAMINER PARROT: Let's go off the
13 record.

14 (Discussion off the record.)

15 (OPEN RECORD.)

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