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PUBLIC SERVICE  
COMMISSION

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In The Matter Of: :  
Application Of Big Rivers Electric Corporation For : Case No. 2012-00535  
A General Adjustment In Rates :  
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DIRECT TESTIMONY OF KELLY THOMAS  
ON BEHALF OF ALERIS INTERNATIONAL, INC.  
AS A MEMBER OF KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.

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I. INTRODUCTION AND QUALIFICATIONS

1

2 Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS ADDRESS.

2

3 A. My name is Kelly Thomas. I am the Senior Vice President and General Manager, Rolled  
4 Products North America of Aleris International, Inc. My business address is 25825  
5 Science Park Drive, Beachwood, OH 44122.

3

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6

7 Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL  
8 BACKGROUND.

7

8

9 A. I joined Aleris in 2010 and currently serve as Senior Vice President and General Manager  
10 for the company's Rolled Products North America business, responsible for all business

9

10

1 and operational activities. I served as Vice President, Risk Management from 2010  
2 through July 2011 before taking over as Vice President and Treasurer from July 2011  
3 through July 2012. Prior to that, I held a variety of roles with increasing responsibility at  
4 Alcoa from 2000 – 2010, including Vice President, Alcoa Materials Management Europe  
5 from 2007 - 2010, responsible for all commercial activities for Alcoa’s Primary Europe  
6 business. Prior to this role, I was Director, Risk Management for Alcoa, responsible for  
7 the global aluminum hedging function from 2004 - 2007. Prior to joining Alcoa, I held a  
8 variety of financial and commercial leadership roles with Reynolds Metals, Louis  
9 Dreyfus Energy and IBM. I graduated from the University of Virginia, McIntire School  
10 of Commerce with a concentration in Finance in 1991.

11  
12 **Q. ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

13 **A.** I am appearing on behalf of Aleris International, which is a member of the Kentucky  
14 Industrial Utilities Customers, Inc. (“KIUC”). Aleris is a privately-held, global leader in  
15 aluminum rolled and extruded products, and recycling, with global headquarters in  
16 Cleveland, Ohio. The company’s annual sales are approximately \$4.4 billion with  
17 business locations in 17 countries, employing approximately 7,200 people worldwide.

18 Aleris owns and operates an aluminum rolling mill in Lewisport, Kentucky. The  
19 Lewisport Rolling Mill has been in operation since 1964, and provides rolled aluminum  
20 sheet to key industries in Kentucky and the United States including Distribution,  
21 Transportation, Automotive, Building and Construction and Specialty Products. The Mill  
22 employs approximately 820 people. These are high-paying, family supporting jobs.

1           Aleris is served under the Large Industrial rate by Big Rivers Electric  
2 Corporation (“Big Rivers”) through our distribution cooperative Kenergy Corp.  
3

4 **Q. WHAT DO LARGE, ENERGY INTENSIVE INDUSTRIAL CUSTOMERS, SUCH**  
5 **AS ALERIS EXPECT AND VALUE FROM THEIR ELECTRIC UTILITIES?**

6 A. There are several key qualities that are critical to Aleris’ continued viability and ability to  
7 prosper. Without safe, reliable service, the health and safety of our employees and the  
8 integrity of our facility are threatened. Equally important, however, are low cost, stable  
9 electricity rates. Aleris is competing in an increasingly global market. To succeed, we  
10 require cost competitive and predictable electricity rates that reflect the true cost of  
11 service. We cannot absorb inefficiencies in our suppliers’ systems or subsidize other  
12 industries. We cannot pay for excess capacity that is not providing service to us.  
13 Moreover, if prices are not competitive or lack predictability, it severely impedes our  
14 ability to justify the capital improvements that are required for our facility to remain both  
15 technologically and commercially competitive.

16  
17 **Q. HOW WOULD YOU ASSESS THE STRENGTH OF THE ALUMINUM**  
18 **INDUSTRY?**

19 A. The long term projections for the aluminum industry are strong due to the material’s ideal  
20 characteristics for light-weight applications and its recyclability. More and more,  
21 aluminum is being considered as an attractive alternative to other more traditional  
22 materials, such as steel. This is creating opportunities for new and exciting products and  
23 applications for aluminum.

1           As one of Aleris' most important US manufacturing facilities, we are actively  
2 considering our investment options at Lewisport to take advantage of these new  
3 opportunities for aluminum. As a result of the positive long term outlook, however,  
4 competition in the US flat-rolled aluminum industry has grown significantly due to the  
5 introduction of foreign competitors that benefit from lower cost structures and rich  
6 government incentives on power, tax adjustments and other subsidies.

7  
8 **Q.    COULD THE RATE INCREASES THAT BIG RIVERS IS PROPOSING IN THIS**  
9 **CASE AND WILL PROPOSE IN THEIR ANNOUNCED FILING THIS SUMMER**  
10 **EFFECT ALERIS' BUSINESS PLANS?**

11  
12 **A.**   Yes. Our Lewisport facility competes directly with imported products. For Aleris to  
13 maintain a competitive position, we need to continually find ways to reduce costs and  
14 provide a greater level of service or new, innovative products – otherwise we face  
15 extinction as a viable domestic aluminum supplier. To this end, we have invested  
16 significantly in recent months upgrading our US facilities, including Lewisport.

17           Lewisport is being considered for potential new lines of business which would  
18 require further substantial investment. Such an investment would help to secure a  
19 prosperous and long term future for the facility and greatly benefit the Lewisport  
20 workforce, our customers and the Commonwealth of Kentucky. Unfortunately, the  
21 proposed rate increase, together with the potential for additional and substantial increases  
22 in the future, is a major impediment to a future investment. A significant change in the  
23 cost structure of the Lewisport facility of the magnitude contemplated in this rate case  
24 will force us to consider alternative investment opportunities elsewhere.

1 Kentucky has greatly benefitted from its ability to attract industry with, among  
2 other things, competitive power rates, allowing local businesses to maintain a competitive  
3 position in a global business environment. This has brought great economic value to the  
4 region in the form of jobs, tax revenues and a highly-skilled labor force. It is critical that  
5 we continue down this path and not risk losing valuable businesses and the economic  
6 value that comes with this large industrial base.

7  
8 **Q. WHAT IS ALERIS' CURRENT VIEW OF THE COST OF POWER THAT WILL**  
9 **BE PROVIDED BY BIG RIVERS IN THE FUTURE?**

10 A. When changes in base rates, the FAC, ECR, Smelter surcredits and the MSRM are taken  
11 into account the rate increase to Aleris proposed in this case is nearly 30% above current  
12 rates.<sup>1</sup> This is in addition to the approximately 5% increase that Aleris began paying a  
13 little more than a year ago as a result of Big Rivers' last rate case (Case No. 2010-00037).  
14 These two rate increases would be difficult enough to absorb, however Big Rivers has  
15 stated that its strategy for recouping the lost revenue from the termination of the Alcan  
16 contract in January of 2014 is to raise rates on the remaining ratepayers yet again.<sup>2</sup> KIUC  
17 witness Mr. Kollen calculates that the rate case that will be filed this summer in order to  
18 recoup the loss of the Alcan load may be another 48% to 62% to Large Industrial  
19 ratepayers.

20 As explained earlier, we compete on a global basis. When Aleris suffers the  
21 burden of increased electricity costs our competitors in other parts of the US and around  
22 the world do not. We will not be able to pass those costs on to our customers. In today's

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<sup>1</sup> See Tab 59 Attachment to Application of Big Rivers; page 8 of 8.

<sup>2</sup> See Big Rivers' Response to PSC 2-1.

1 market, our customers expect and demand that we increase productivity and eliminate  
2 waste and inefficiencies from our operations. Importantly, they expect to share in the  
3 benefit of these process improvements. It now appears that the benefit achieved by any  
4 increases in productivity will be greatly reduced, or completely offset by higher power  
5 bills.

6  
7 **Q. WHAT IS ALERIS' VIEW OF BIG RIVERS' PROPOSAL THAT ITS**  
8 **REMAINING CUSTOMERS ABSORB 100% OF THE REVENUE SHORTFALL**  
9 **CAUSED BY THE LOSS OF THE SMELTER LOAD?**

10 A. Aleris does not believe that it is reasonable for Big Rivers to ask its remaining customers  
11 to pay for 100% of the capacity that was built to provide service to other customers.

12  
13 **Q. WHAT IS ALERIS' CURRENT VIEW OF THE PRICE-CERTAINTY THAT**  
14 **WILL BE PROVIDED BY BIG RIVERS IN THE FUTURE?**

15 A. Big Rivers has refused to quantify the estimated impact of its announced rate case filing  
16 in June despite the fact that the primary driver of the rate increase, the loss of the Alcan  
17 load, is known to Big Rivers. As a result, Aleris is unable to assess the viability of  
18 capital expenditures and other budgeting considerations at the Lewisport plant.  
19 Additionally, Big Rivers' self-described "precarious financial position,"<sup>3</sup> does not give  
20 Aleris confidence that the rate increases proposed as a result of the loss of the smelter  
21 loads will be the last rate increases proposed by Big Rivers in the near future. It is  
22 apparent that additional loss of load, perhaps as a result of the current and imminent rate

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<sup>3</sup> Direct Testimony of Mark Bailey, p. 7.

1 cases, could cause Big Rivers to file more rate cases in order to recover its fixed costs and  
2 service debt from a continually shrinking native load.

3  
4 **Q. HOW DO YOU VIEW THE RECENT ANNOUNCEMENTS THAT CENTURY**  
5 **ALUMINUM WILL BUY ALCAN'S SEBREE, KENTUCKY SMELTER AND**  
6 **THAT BIG RIVERS AND KENERGY HAVE AGREED TO ALLOW THE**  
7 **SMELTERS TO ACCESS THE WHOLESALE POWER MARKET ?**

8 A. While it is welcome news for Western Kentucky that the Sebree and Hawesville smelters  
9 apparently will purchase market power and stay open, these announcements do not  
10 appear to affect Big Rivers' rate request. These announcements do not solve or mitigate  
11 the problem facing Big Rivers' remaining customers. Remaining customers cannot afford  
12 to pay for the excess generating capacity that was built to serve the smelters.

13  
14 **Q. HAS ALERIS BEEN ACTIVE IN THE EFFORT TO EDUCATE THE PUBLIC**  
15 **CONCERNING BIG RIVERS' PLAN TO RECOVER ALL LOST MARGINS**  
16 **FROM THE SMELTER DEPARTURES FROM ITS REMAINING CUSTOMERS**  
17 **THROUGH A SERIES OF RATE CASES?**

18 A. Yes, along with Domtar and Kimberly-Clark, Aleris founded Fair Rates Kentucky in  
19 order to get the word out to the public that the rate increase proposed by Big Rivers in  
20 this case, when coupled with other anticipated and announced future rate changes, was  
21 going to be much higher than Big Rivers claimed it to be. We also believe that it is  
22 important that the public understand that this is the first of a series of rate hikes. The next

1 rate hike will be proposed at the end of June and this will be followed by another  
2 automatic rate hike when the Reserve Accounts are exhausted.

3

4 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

5 **A.** Yes.



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: Case No. 2012-00535

Application Of Big Rivers Electric Corporation For A :  
General Adjustment In Rates :  
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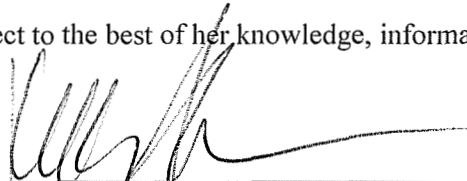
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**AFFIDAVIT OF KELLY THOMAS**


STATE OF OHIO )  
 ) SS  
COUNTY OF Cuyahoga )

Kelly Thomas, being first duly sworn deposes and states that:

1. She is Senior Vice President and General Manager, Rolled Products North America of Aleris International, Inc.;
2. She is the witness who sponsors the accompanying testimony entitled "Direct Testimony of Kelly Thomas on behalf of Aleris International, Inc., as a member of Kentucky Industrial Utility Customers, Inc.";
3. Said testimony was prepared by her and under her direction and supervision;
4. If inquiries were made as to the facts in said testimony she would respond as therein set forth; and
5. The aforesaid testimony is true and correct to the best of her knowledge, information and belief.

  
\_\_\_\_\_  
Kelly Thomas

Subscribed and sworn to or affirmed before me this 17th day of April, 2013, by Kelly Thomas.

Notary Public  
**KERRIE A. KRIZNER**  
NOTARY PUBLIC  
STATE OF OHIO  
Comm. Expires  
10/25/13