

**BEFORE THE UNITED STATES INTERNATIONAL TRADE COMMISSION
UTILITY SCALE WIND TOWERS FROM CHINA AND VIETNAM**

FINAL PHASE

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Good afternoon. I am Kevin Hazel, Vice President for Supply Chain for the Americas Region of Siemens Wind Power. I have been with Siemens for 34 years, managing the supply chain for wind power for the last five. Throughout the period of investigation, I have been responsible for the procurement, quality, and delivery of wind towers.

Petitioners have speculated a lot about our policies and practices in procuring towers for wind farms. Here are the facts:

We do not buy towers from manufacturing plants we have not qualified. Qualification is for quality control, as petitioners seem to recognize. It often takes months to qualify a facility. The primary expense of qualification, typically between \$250,000 and \$500,000, is borne by Siemens. Petitioners apparently think qualification is automatic. It isn't, as Katana's Ephrata plant ought to know. Petitioners also seem to think it is based on a prior price negotiation. It isn't. The criteria are technical and based on performance, capability, and capacity.

We do not take bids for towers. Because of the logistical problems in moving towers, and the expense, we always – let me repeat – always – try to buy as many towers as we need for a project from the qualified facility closest to the project. The most important considerations are whether the facility has capacity to deliver the number of towers we need, meeting Siemens' quality control standards, in the window when we need them. When it can, it gets the complete order. If it can supply some but not all of the towers, we may take what we can get, although we would still prefer to get all the towers from one place and may try somewhere else. When we can't get all of the towers, or the rest of what's needed, from the first or second choice, we move on. We invariably move to the next nearest qualified facility, determined by geography, and we continue in this manner until we have all the towers we need for the project.

Of course, sometimes we know that the next nearest facility has no capacity, so we are forced to move even further away. We know that the further we go, the more it will cost us, regardless of the f.o.b. price. At no time, however, do we collect more than one quote from more than one producer in order to compare them or persuade one to meet the price of the other. Our overwhelming priority is to meet our contractual obligation to our customers, including public utilities, which means to assemble and install the contracted number of wind turbines according to specific design and on time.

Domestic tower manufacturers have spaced themselves so far apart that there is no real competition among them. Again, the supplier that is closest to the project site has an overwhelming advantage, assuming capacity and quality control standards can be met. The tower manufacturers in the United States are all around 500

miles or more apart from one another, and we generally are trying to move towers a good deal fewer than 500 miles.

We invested substantial resources in 2011 to expand the number of qualified domestic producer facilities so we could increase the domestic production capacity available to us, and could lower our costs and commercial risk for tower transportation to project sites. Contrary to petitioners' theory that we were looking only to buy more towers from China and Vietnam, we were diligently and at great expense trying to grow the number of potential suppliers in the United States.

In addition to domestic suppliers we already had qualified and relied upon -- Ameron and DMI -- in 2011 and 2012, we qualified Katana's Nebraska and Washington State facilities, Martifer Hirschfeld's Texas facility, and Broadwind's Wisconsin facility; all of these qualifications were completed or underway before the petition was filed in this case. We also had numerous communications with Trinity that we hoped would lead to the qualification of facilities in Iowa and elsewhere, but we could not come to agreement on warranties, liquidated damages, and other issues (none of which was price-related), nor could we reach agreement on the kind of capacity Trinity would have available and the terms for its availability.

We buy towers from China and Vietnam for only two reasons. All the domestic manufacturers, with the exception of Ameron in Southern California and Katana's Ephrata, Washington plant (which was not available until it qualified for Siemens production in January of this year), are in the middle of the country and distant from port facilities. Transportation from those facilities to the Atlantic and Pacific

Coasts, to Puerto Rico and Hawaii, is too difficult and too expensive. If OEMs were unable to procure Chinese and Vietnamese towers, our customers would be unable to supply electricity through wind power to those densely populated areas of the United States.

Our second reason for buying Chinese and Vietnamese towers arises when our domestic suppliers let us down. They may contract with us and fail to deliver, whether on time or of adequate quality. And they may refuse to contract with us altogether, a frequent occurrence in 2012.

Often when we need towers there is no nearby qualified facility or none that is ready or none that will be ready by the time towers need to be delivered. Petitioners have reported various efforts and interests in building facilities on behalf of OEMs near projects. Unfortunately, they typically want OEM guarantees before they build or staff.

That is the story for our project in Washington State and apparently for GE on Shephard's Flat. In my judgment, GE could not reasonably be expected to wait for a supplier to build a local factory, any more than Siemens could wait to contract for a major supply of towers when Katana Summit had only two employees.

Two major domestic producers have proposed to me personally that they would build a new facility at a specific location if I would guarantee to purchase a significant quantity of towers from that location for a minimum of three years. Thus, before there was even a factory, let alone one with employees qualified to build towers meeting Siemens' standards and specifications and before Siemens had wind power

contracts, they wanted a guarantee of wind tower purchases fixed to a location where there might not ever be a project.

One of the leading petitioners, complaining bitterly about foreign towers in the U.S. market, repeatedly has tried to persuade Siemens to buy towers from facilities it has in Mexico. Apparently there is plenty of excess capacity there, and they have offered f.o.b. quotes that undersell all options, foreign and domestic. But we do not want towers from Mexico, which face worse transportation and logistical solutions than American or Chinese or Vietnamese towers. Perhaps they think it's all about price and we should buy those towers. We're not buying.

Let me offer an example of an exception, where we did deliver foreign towers to the Midwest. We qualified and contracted for that project with one of the petitioners. That manufacturer let us down, failing to deliver. We had to scramble for towers. The other nearest domestic manufacturers either were not qualified to produce towers or lacked the capacity to do so. Therefore, we had to bring towers in from further away in the United States, and then also from Asia. We lost money, but we would have lost even more had we failed to install the turbines. Chinese towers were bought for this project as a last resort, when domestic companies failed to deliver. The record shows they cost us more than the domestic towers.

Petitioners are focused on price. We generally know market prices at any given time because our contracts with tower suppliers to manufacture our unique towers typically are based on their concept of "conversion." They charge us a price for their "conversion" of steel plate into steel towers for wind turbines, and then add to the

conversion price charges that they pass through to us for the changing costs of their inputs, particularly and most importantly steel. We have submitted for the record statements from suppliers explaining price rises for towers due to steel prices. We absorb those additional costs, not the domestic tower manufacturers. And when tower manufacturers produce towers for Siemens, they are making our product, according to our design.

The price of towers from China and Vietnam has never determined whether we would purchase American towers, nor at what price. We prefer to buy American, which is why we have diligently sought to qualify more domestic facilities. Responsible for supply chain, I want to deal with the fewest possible number of suppliers at the shortest distances. I prefer solving problems by speaking in the same language, in the same time zone. Unfortunately, sometimes I can't have it the way I prefer. But towers from China or Vietnam have never displaced the purchase of an American tower.

Siemens qualifies tower manufacturers everywhere in the world the same way, at the same expense. Today, only one supplier in China and only one in Vietnam are qualified to supply Siemens with custom-designed towers. They have no inventory of towers for Siemens because Siemens designs and buys towers for specific projects. Siemens cannot buy towers made for any other OEM for a Siemens project. Anyone making towers for us in China or Vietnam has to be qualified in the same way we qualify facilities in the United States.

I understand the law to require a threat of injury to be imminent. There is no threat from China or Vietnam: there is no inventory, there are only two qualified manufacturers, and it would take up to a year to deliver on new orders. And for all that, we will still prefer, whenever possible, to buy American.