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Class Cost of Service

Witness: Donald Johnstone

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Case Number: ER-2008-00318

Date Testimony Prepared: November 5, 2008

AmerenUE

Case No. ER-2008-0318

Prepared Surrebuttal Testimony of

Donald Johnstone

On behalf of

Noranda Aluminum, Inc.

November 2008

Noranda Exhibit No. 756
Case No(s). ER-2008-0318
Date 12-04-08 Rptr KF

Before the
Missouri Public Service Commission

AmerenUE

Case No. ER-2008-0318

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Prepared Surrebuttal Testimony of Donald Johnstone**

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Competitive Energy
DYNAMICS

Before the
Missouri Public Service Commission

AmerenUE

Case No. ER-2008-0318

Prepared Surrebuttal Testimony of Donald Johnstone

1 Q PLEASE STATE YOUR NAME AND ADDRESS.

2 A My name is Donald Johnstone and my address is 384 Black Hawk Drive, Lake Ozark,
3 Missouri, 65049.

4 Q ARE YOU THE SAME DONALD JOHNSTONE THAT PREVIOUSLY SUBMITTED DIRECT
5 AND REBUTTAL TESTIMONY IN THIS DOCKET?

6 A Yes.

7 **CHANGED CONDITIONS - A DIFFERENT NORANDA RECOMMENDATION**

8 Q HAS THE NORANDA PERSPECTIVE CHANGED SINCE YOUR DIRECT TESTIMONY?

9 A Yes. There has been substantial turmoil in the financial markets and there is little
10 doubt that the United States' economy along with the world economy is headed into a
11 recession. Neither Noranda, nor AmerenUE, nor consumers in general can escape the
12 circumstances. These conditions emerge as Noranda is working vigorously to develop a
13 sustainable platform for its business for both the near term and the longer term. In
14 this context the fuel adjustment clause (FAC) possibilities were carefully reviewed and
15 Noranda is moving to a position of conditional support for a FAC.

1 Just as Noranda is working hard to develop a sustainable future for its business,
2 it recognizes the importance of a stable and sustainable future for AmerenUE as its
3 single largest supplier. In this environment the financial interests of AmerenUE are
4 important along with reliable service and low cost. As a consequence, if several
5 important conditions are met in the design of the FAC, Noranda would find it in its
6 interest to support a FAC. The conditions are important and would result in the risks
7 to Noranda, as a consumer recipient of additional AmerenUE fuel cost risks, being
8 designed down to an acceptable level. At the same time, there should be lower short-
9 term and long-term financial costs for AmerenUE leading to lower total costs and
10 lower rates for all consumers because of the benefits of the FAC perceived by the
11 financial community.

12 **SUMMARY**

13 **Q WHAT ARE THE SUBJECTS ADDRESSED IN YOUR TESTIMONY?**

14 **A**There are three. I will address whether and under what conditions and assumptions a
15 FAC would be supported from Noranda's perspective. The second subject is a FAC
16 structure that addresses consumer protections in the context of risk management and
17 incentives. The third subject is the spread of the rate increase. Of course, these
18 subjects are addressed in the context of my response to the rebuttal testimony of
19 AmerenUE.

20 **Q PLEASE PROVIDE A SUMMARY OF YOUR TESTIMONY.**

21 **A**A summary of my testimony follows:

1 **FAC NEED**

- 2 ➤ Ameren explains that a FAC can improve its ability to earn its allowed ROE and
3 provide risk management for its investors by increasing rates and revenues, and
4 shifting risks to customers. However the proposal does so with a structure that
5 falls short in consumer protections that would balance the risks.
- 6 ➤ The recent turmoil in financial markets highlights the need for improved
7 financial strength.
- 8 ➤ Ameren witnesses explain that a FAC will lower the cost of debt and equity,
9 changes that reduce the total cost of service.
- 10 ➤ Assuming that the conditions of risk management are equitable, that
11 appropriate incentives are incorporated, that reduced debt and equity costs
12 are fully recognized, that all applicable legal requirements are satisfied, and
13 that all other provisions of the FAC are reasonable, Noranda would support a
14 FAC for implementation at this time.

15 **FAC STRUCTURE**

- 16 ➤ Risk management is just as important from a customer perspective as it is from
17 a utility/investor perspective and there must be an equitable balance within
18 the FAC structure.
- 19 ➤ If there is to be a FAC, it is important that risk management include limits on
20 the pass-through of replacement power costs - such as those for the Taum Sauk
21 failure.
- 22 ➤ Incentive provisions and effects continue to receive attention, appropriately
23 so, and incentives to lower cost ought to be preserved in any FAC.
- 24 ➤ If there is to be a FAC, it is important to achieve an appropriate level of
25 incentive by limiting the amounts subject to tracking. Noranda reserves the
26 right to support a particular percentage of net fuel costs for FAC treatment
27 based on the record at the hearing; perhaps under provisions such as those

1 proposed by State of Missouri witness Cohen, OPC witness Kind, or MIEC witness
2 Brubaker.

3 **CLASS COST-OF-SERVICE STUDY**

4 > Noranda continues to support a cost-based LTS rate as most appropriate for
5 service to Noranda. For the purposes of this rate proceeding Noranda
6 continues to support the class cost-of-service study submitted by AmerenUE the
7 appropriate basis for the Noranda rate. Nevertheless, the direct and rebuttal
8 testimonies identify the need for studies that may lead to improvements in the
9 accuracy of the cost study in the future.

10 > Based on my review of the testimonies, it is apparent that AmerenUE's current
11 approach to multiple peaks in the production demand allocation factor
12 influences the measure of peak responsibility (as described in my rebuttal
13 testimony) and may be improved. In the meantime, it should be recognized
14 that the current methods may overstate the relative cost responsibility for
15 Noranda.

16 > Several parties address the classification of non-fuel productions costs and the
17 degree to which such costs are fixed. Indeed, it appears that such costs are
18 largely fixed, and that the approach used in the AmerenUE class cost-of-service
19 would benefit from additional study to identify possible improvements. Again,
20 it should be recognized that the current AmerenUE method may overstate the
21 relative cost responsibility for Noranda.

22 **RATE RECOMMENDATION**

23 > I continue to recommend an increase for rate LTS based on the class cost-of-
24 service study submitted by AmerenUE. At a 5.8% cost-based increase,
25 compared to the proposed 12.1% system average increase, the percentage
26 increase to Noranda should be 48% overall system increase percentage. This

1 will ensure that Noranda pays its equitable share of the costs according to the
2 current AmerenUE class cost-of-service study.

3 **FAC NEED - INTRODUCTION**

4 Q PLEASE PROVIDE AN OVERVIEW OF YOUR TESTIMONY REGARDING THE NEED FOR A
5 FAC.

6 A I will respond to various aspects of the AmerenUE rebuttal in the context of the policy
7 perspectives discussed initially in my direct testimony. This testimony is limited in
8 scope and does not address every issue raised. Silence does not connote agreement.

9 **FAC NEED - LEGAL CONSIDERATIONS**

10 Q DOES YOUR TESTIMONY ADDRESS THE LEGAL TESTS TO BE MET FOR THE APPROVAL
11 OF A FAC FOR AMERENUE?

12 A I do not address the specific legal tests that come from SB179 or other applicable law,
13 although other parties have done so. It is the intent of Noranda to leave such matters
14 for others to address and my testimony should not be construed as a Noranda position
15 pro or con in such matters.

16 **FAC NEED - FINANCIAL IMPACT OF AMERENUE AFFILIATES**

17 Q DOES YOUR DIRECT TESTIMONY ALLEGE THAT AMERENUE AFFILIATES HAVE AN
18 IMPACT ON THE FINANCIAL RATINGS OF AMERENUE?

19 A Yes.

1 Q DOES AMEREN RESPOND IN ITS REBUTTAL?

2 A Yes. Ameren witness O'Bryan, a Senior Capital Markets Specialist in Corporate Finance
3 for Ameren Services Company and former investment banker, states, "it is
4 preposterous to suggest that AmerenUE needs a FAC simply because of events that
5 occurred in Illinois in recent years." It may or may not be preposterous, but the
6 "suggestion" addressed by Mr. O'Bryan is moot as far as my direct testimony is
7 concerned, because I made no such suggestion.

8 Q WAS YOUR TESTIMONY MISUNDERSTOOD OR MISCONSTRUED BY MR. O'BRYAN?

9 A Apparently so. My point was that circumstances in Illinois affect the ratings for
10 AmerenUE. I posit that Missouri ratepayers should not pay for Ameren's problems in
11 Illinois by allowing Illinois impacts to influence the consideration of a FAC in Missouri.

12 Q DO THE ILLINOIS CIRCUMSTANCES OF AMERENUE IMPACT THE FINANCIAL RATINGS
13 OF AMERENUE?

14 A Yes. As explained by Mr. O'Bryan on page 2 of his rebuttal, the Standard and Poor's
15 Rating Services (S&P) ratings incorporate the effects of affiliates. My point was that
16 the effect of Illinois circumstances is a consideration, and his rebuttal confirms the
17 point. The more difficult question is the degree of impact, a matter also addressed by
18 Mr. O'Bryan in his rebuttal.

19 Mr. O'Bryan reports that S&P rates AmerenUE long-term issues as the lowest
20 investment grade, while Moody's, which does not consider AmerenUE affiliates in the
21 development of its ratings, rates AmerenUE one notch higher. He opines that the
22 effects are modest, and that it is impossible to draw any firm conclusions.

1 Q CAN YOU SUMMARIZE THE TESTIMONY REGARDING THE IMPACT OF AMERENUE
2 ILLINOIS AFFILIATES ON MISSOURI RATEPAYERS?

3 A Yes. First, as confirmed in AmērenUE’s testimony, the Illinois circumstances have an
4 impact through the S&P rating applicable to AmerenUE’s long term debt. It is clear
5 enough that the S&P ratings are lower than Moody’s, information taken from the
6 testimony of Mr. O’ Bryan. A remaining question is the magnitude of the adverse
7 impact on Missouri. On this point the AmerenUE defense is apparently that “any
8 effects are modest.” If the Commission wishes to assign value to the impact, it would
9 be to appropriate to influence the ROE decision modestly downward. Then the
10 Missouri ratepayers would be held harmless.

11 FAC NEED - LOWER COST CAPITAL

12 Q DOES MR. O'BRYAN STATE THAT A FAC WILL ENHANCE AMERENUE’S CREDIT
13 PROFILE?

14 A Yes. He states that the beneficial effects will be better access to credit and a lower
15 cost for short and long-term capital.

16 Q DO YOU HAVE ANY REASON TO DISAGREE?

17 A No. And a lower cost of short-term and long-term capital is important to Noranda,
18 because lower costs mean a lower revenue requirement and lower rates.

1 Q DOES MR. O'BRYAN'S REBUTTAL TESTIMONY ADDRESS THE CURRENT TURMOIL IN
2 THE FINANCIAL MARKETS IN THE CONTEXT OF A FAC?

3 A Yes. Suffice to say the cash flow impact and perceived additional financial strength
4 are benefits that take on additional importance in the context of current market
5 conditions. Hopefully the turmoil will pass soon. Ameren testified that it will need to
6 issue long-term debt in 2009, and Mr. O'Bryan suggests that a FAC would be a positive
7 consideration. This factor also contributes to Noranda's position of conditional
8 support for a FAC.

9 **FAC NEED - THE RELEVANCE OF CAPITAL EXPANSION PLANS**

10 Q DOES AMEREN WITNESS LYONS ADDRESS WHETHER OR NOT THE CAPITAL
11 EXPANSION PLANS OF AMERENUE ARE A CONSIDERATION IN REGARD TO A FAC?

12 A Yes. Among other things, Mr. Lyons suggests that future plans are not relevant.

13 Q IS MR. LYONS' TESTIMONY CONSISTENT WITH THE EXPERT HE EMPLOYED ON THE
14 SUBJECT?

15 A No. AmerenUE retained Mr. Rygh, a Senior Vice President of Barclays Capital Inc., the
16 investment banking division of Barclays Bank PLC.

17 As an investment banker, Mr. Rygh presents the perspective of investors. He
18 describes 2008 and the next several years as a time of increasing capital expenditures
19 during a rising cost environment. He observes that 2007 marked the first year since
20 1983 that the regulated utility sector has posted a pre-dividend deficit in free cash
21 flow. This information is presented in the context of major trends that he expects to

1 impact the industry. Of course, Mr. Rygh uses this as part of the information he relies
2 on to support AmerenUE's need for a FAC.

3 **Q CAN YOU DRAW ANY CONCLUSIONS FROM YOUR TESTIMONY AND MR. RYGH'S?**

4 **A** First, I believe that Mr. Rygh and I are in agreement that capital expansion
5 circumstances are relevant to the degree of need for an AmerenUE FAC. Next, I see
6 nothing inconsistent with my observation that AmerenUE's financial strength is or will
7 be on a downward trend (according to AmerenUE's Integrated Resource Plan). The
8 question is what should be done. In my direct testimony I suggested the need for
9 Commission guidance in this regard. (Johnstone Direct Testimony, August 28, 2008, p.
10 12) I stand by that suggestion for reasons that pertain to the Integrated Resource Plan
11 as much as the FAC. However, I also note the extraordinary turmoil in financial
12 markets and the stated need for long-term financing in 2009. In consideration of
13 recent market developments, and the capital expansion that is already underway, a
14 solution would be helpful sooner rather than later. This is a part of the consideration
15 leading to the change in Noranda's position.

16 **FAC NEED - FINANCIAL RISK MANAGEMENT**

17 **Q DOES MR. RYGH DISCUSS THE CONCEPT OF RISK MANAGEMENT IN THE CONTEXT OF**
18 **A FAC?**

19 **A** Yes. I believe it is fair to say that he describes risk management from the investor and
20 utility perspective as a significant consideration. A FAC is a mechanism that reduces
21 the financial risk for investors.

1 Q GIVEN THAT RISK MANAGEMENT IS AN INVESTOR BENEFIT IN THE CONTEXT OF A
2 FAC, WHO IS THE COUNTERPARTY THAT IS THE RECIPIENT OF THE MANAGED RISK?

3 A On this point there is no doubt, it is the ratepayers of AmerenUE.

4 Q IS THERE ANY REQUIREMENT TO SHIFT 100% OF ALL RISKS ASSOCIATED WITH FUEL
5 COSTS TO RATEPAYERS?

6 A No. Mr. Rygh devotes considerable testimony to the matter of investor perceptions. It
7 seems that there is a perceived risk to the utility due to the perceived likelihood of
8 rising fuel prices and fuel price volatility. However, I find no discussion of perceived
9 risks associated with the cost of replacement power due to unit outages.

10 Q IF THERE IS NO PERCEPTION OF RISK, IS IT NECESSARY FOR A FAC TO SHIFT THE
11 BURDEN OF EXTRAORDINARY REPLACEMENT POWER COSTS TO RATEPAYERS?

12 A The question has two parts that turn on the definition of risks: first, the real shift in
13 risks and second, the risks as perceived by investors. If there is no perception of risk
14 by the investors, then there is probably no need to shift the risk for the purpose of
15 reducing capital costs. But on closer inspection I would again note, as I did in my
16 direct testimony, that AmerenUE buys insurance to cover part of this risk. Thus, it is
17 reasonable that this has not been a perceived risk because the insurance is sufficient
18 to cover the risk from an investor perspective. In other words, there is no perceived
19 risk because utilities in general and Ameren in particular have managed the risk. From
20 both perspectives, there is no need to burden ratepayers with a risk that is already
21 managed in a manner that is apparently acceptable to investors. Further, the cost of
22 the risk management (outage insurance) is borne by ratepayers.

1 Q IS THIS A MATTER YOU WILL ADDRESS FURTHER IN THE CONTEXT OF STRUCTURE
2 FOR A PROPERLY DESIGNED FAC?

3 A Yes.

4 **FAC NEED - NORANDA POSITION**

5 Q HAS THE NORANDA POSITION ON THE QUESTION OF NEED CHANGED?

6 A Yes. The Noranda position has changed for several reasons.

7 Q PLEASE EXPLAIN.

8 A Noranda's position has changed based on developments in financial markets, the
9 likelihood of an economic recession, and a reconsideration of the costs and benefits of
10 a FAC in this context. The considerations include the following:

- 11 ➤ Financial market turmoil increases the need to address financial stresses and the
12 financial health of AmerenUE sooner rather than later.
- 13 ➤ The likely economic recession heightens the ever present need to minimize the
14 cost of electricity.
- 15 ➤ The impact on financial ratings due to Illinois operations is not so large as to
16 overcome other considerations.
- 17 ➤ Capital expansion, even in the current absence of base load capacity expansion,
18 is contributing to financial stress that would otherwise increase cost and that can
19 be addressed in part with a properly designed FAC.
- 20 ➤ A properly designed FAC according to AmerenUE testimony will contribute to
21 lower costs. AmerenUE has explained that it expects lower short-term and long-
22 term capital costs with a FAC.

1 Based on Noranda's current assessment of the situation the Noranda position has
2 evolved to one of conditional support. The conditions are important and include:

- 3 > The legal requirements must be met. Noranda leaves this matter to the parties
4 that have addressed the matter and takes no position, positive or negative on the
5 matter.
- 6 > The FAC must be of a proper design that will preserve incentives to low cost to
7 the extent practicable; will not result in an unnecessary and undue shift of risk
8 to ratepayers; and will minimize rate volatility.
- 9 > An appropriate reduction in total cost will accrue to ratepayers.

10 **FAC STRUCTURE - FINANCIAL INCENTIVES**

11 **Q DOES AMEREN ADDRESS THE MATTER OF INCENTIVES INHERENT IN THE DESIGN OF**
12 **ITS PROPOSED FAC?**

13 **A** Yes. By design, AmerenUE proposes to pass through 95% of the variations in the net of
14 fuel, purchased power, and off-system sales revenues. The other 5% would continue
15 to receive base rate treatment, and the incentives that accompany that 5% of the net
16 cost would continue.

17 **Q ARE THERE ALTERNATIVE PROPOSALS FROM OTHER PARTIES?**

18 **A** Yes. Other parties have recommended that a smaller percentage of net costs be
19 subject to tracking and that a larger percentage continue to receive base rate
20 treatment. Of course, some parties oppose the FAC altogether, which means all of the
21 net costs would continue to receive base rate treatment.

1 Q WHAT ARE THE POSSIBILITIES IN THE CONTEXT OF THIS CASE?

2 A 50 % and 80% tracking of net costs are possibilities supported by others. While I will
3 not be supporting a specific tracking percentage at this time, Noranda will reserve its
4 right to support a particular position according to the record as it develops.

5 **FAC STRUCTURE - FINANCIAL RISK MANAGEMENT**

6 Q DID YOU ADDRESS FINANCIAL RISK MANAGEMENT EARLIER IN THIS TESTIMONY IN
7 THE CONTEXT OF THE NEED, OR LACK THEREOF, FOR A FAC?

8 A Yes. AmerenUE's investment banker witness, Mr. Rygh, reveals that risk management
9 is one of the purposes of a FAC from an investor perspective. The counterparty is the
10 ratepayer and it is not surprising that ratepayers, including my client, are reluctant to
11 accept the counterparty risk.

12 Q ARE THERE WAYS TO SHARE THE RISK?

13 A Yes. One approach is to adjust the amount of costs subject to tracking under the FAC.
14 Ameren proposes to track 95% of net fuel costs. That means 95% of the risks shift to
15 customers. AmerenUE has gone to some length to explain its view that it expects
16 substantial fuel cost increases, and substantial volatility in both fuel costs and the off-
17 system sales revenue that offset the fuel and purchased power costs. Other parties
18 suggest the volatility is not so large. Ironically, the greater the volatility, the greater
19 the need for risk management, and the greater the risk that is shifted to customers.

1 Q ARE THERE ANY COMPONENTS OF THE RISK THAT CAN BE MANAGED WITHOUT
2 PLACING A BURDEN ON CUSTOMERS?

3 A Yes. As explained in my direct testimony, another significant element of risk arises
4 from the cost of replacement power if there is an extended outage of a low-cost
5 generator. Currently Ameren manages the risk associated with the potential cost of
6 replacement power cost in part by purchasing insurance. This has apparently been
7 successful, as the cost of replacement power is not discussed as a risk by Ameren.
8 Rather it is the cost of fuel, purchased power, and the off-system sales market that is
9 the continuing focus of the testimony.

10 Q HOW DOES MR. LYONS RESPOND TO YOUR CONCERN?

11 A He explains that replacement power cost have not been a large consideration -
12 excluding Taum Sauk.

13 Q WHY DOES HE EXCLUDE TAUM SAUK?

14 A There is no explanation. If included, it would prove my point.

15 Q HAS AMEREN MADE A COMMITMENT TO NOT CHARGE CUSTOMERS FOR THE COST OF
16 REPLACEMENT POWER DUE TO THE TAUM SAUK INCIDENT?

17 A Yes.

18 Q DOES THE PROPOSED FAC INCLUDE ANY PROVISION WHICH WOULD LIMIT THE PASS-
19 THROUGH OF THE COSTS IF A SIMILAR INCIDENT WERE TO OCCUR AGAIN?

20 A No.

1 Q DOES THE PROPOSED FAC INCLUDE ANY PROVISION WHICH WOULD LIMIT THE PASS-
2 THROUGH OF THE COSTS OF ANY OUTAGE, REGARDLESS OF THE LENGTH, AND
3 REGARDLESS OF CAUSE?

4 A There are simply no provisions to limit the pass-through up front. Ameren proposes to
5 manage its risks by shifting 95% of the burden to ratepayers: every residential,
6 commercial, and industrial customer; and to then allow the customers, OPC, and Staff
7 to attempt to recoup the costs in a prudence review. If there is no imprudence, there
8 is no risk management except to the extent of any insurance that is available. Of
9 course, as pointed out by Mr. Lyons, the insurance proceeds have not been large
10 except for Taum Sauk.

11 Q HAS THE AMEREN REBUTTAL GIVEN YOU ANY REASON TO RECOMMEND RISK
12 MANAGEMENT THAT FAVORS INVESTORS OVER CUSTOMERS IN THIS REGARD?

13 A No. In fact, there is no evidence that investors are concerned with this risk, perhaps
14 because the risk has been managed without the need to shift it to customers. I
15 continue to recommend that consumers not be required to insure the replacement
16 power cost for extraordinary generating unit outages.

17 Q WHAT DO YOU PROPOSE?

18 A If there is to be a FAC, I would suggest for consideration a performance benchmark
19 that would limit each occurrence of an unplanned outage for a base-load generator or
20 purchased power contract to two weeks before the company would be required to
21 mitigate the FAC impact by removing the effect of the replacement power cost from

1 the historical accumulation period. I suggest the same two-week limit for the
2 extension of a scheduled outage.

3 Another possibility would be to establish a floor on the generation produced by
4 each base load generator and purchased power contract. With either approach the
5 concept is to leave this aspect of the risk with the company and its investors, where it
6 has been with no apparent adverse consequences.

7 **Q IS IT THE INTENT OF YOUR PROPOSAL TO MAKE AMERENUE ANY WORSE OFF THAN**
8 **IT WOULD HAVE BEEN WITHOUT A FAC?**

9 **A** No. To the extent that AmerenUE would have the ability to request regulatory relief
10 under non-FAC regulation, the same or an analogous form of relief should be available.
11 The important point is that the relief under the FAC should not be automatic, just as it
12 was not automatic in the past. This preserves the risk management possibilities that
13 have been available to both the company and to ratepayers.

14 **Q COULD THERE BE AN ALTERNATIVE APPROACH TO MANAGING THE RISK THAT**
15 **WOULD ALSO REASONABLY PROTECT CONSUMER BY STRIKING A BALANCE BETWEEN**
16 **INVESTOR AND CUSTOMER INTERESTS?**

17 **A** Yes. Ideally this is an issue that would be resolved in a settlement. Absent a
18 settlement, I recommend one of the above procedures or an alternative that would
19 leave AmerenUE investors and customers reasonably close to the status quo absent the
20 FAC.

1 Q IS NOT THIS AN ISSUE APPROPRIATELY CONSIDERED IN THE PROPOSED ANNUAL
2 PRUDENCE REVIEW?

3 A No. It may not be a matter of prudence. There is the separate question of risk
4 management and the impacts of alternative approaches on investors and customers.
5 The prudence review might provide a procedural vehicle, but the standard in this
6 regard should not be limited to imprudence.

7 Q DID MR. LYONS RESPOND TO YOUR TESTIMONY AS TO THE YO-YO EFFECT ON
8 RATES?

9 A Yes. He responded with an analysis that assumed away the problem by ignoring the
10 Taum Sauk disaster and by focusing on insurance proceeds. As has been mentioned,
11 the deductibles are typically large, with the historical effect being that AmerenUE has
12 self insured with respect to the less than catastrophic outages.

13 **RATE RECOMMENDATIONS**

14 Q HAVE THE CLASS COST-OF-SERVICE STUDIES THAT FORM THE BASIS FOR RATE
15 RECOMMENDATIONS BEEN ADDRESSED IN REBUTTAL TESTIMONY?

16 A Yes. However, I have seen no convincing presentation that would change my
17 recommendation.

18 Q PLEASE EXPLAIN WHY IT CONTINUES TO BE IMPORTANT TO NORANDA TO PAY NO
19 MORE THAN ITS FAIR SHARE OF COSTS.

20 A The Smelter, like other customers, is facing challenging economic circumstances. The
21 economic conditions have resulted in less demand and dramatically lower prices for its

1 product. At the same time, Noranda is working very hard to achieve a sustainable cost
2 structure for the Smelter for both the near term and the longer term. Certainly, every
3 effort must be made to hold costs to a minimum, and that extends beyond the Smelter
4 to its suppliers. For AmerenUE, as the single largest supplier, it is imperative that
5 operations be as efficient as possible.

6 Q DOES THIS CONCLUDE YOUR TESTIMONY?

7 A Yes it does.

8

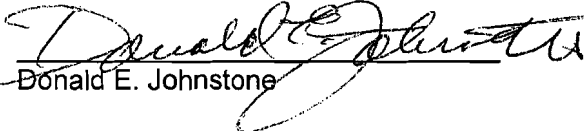
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Union Electric Company)
d/b/a AmerenUE for Authority to File Tariffs) ER-2008-0318
Increasing Rates for Electric Service)
Provided to Customers in the Company's)
Missouri Service Area.)

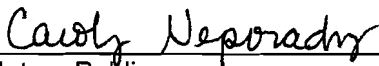
AFFIDAVIT OF DONALD E. JOHNSTONE

STATE OF MISSOURI)
COUNTY OF Camden) ss

Donald E. Johnstone of lawful age, on his oath states: That he has reviewed the attached written testimony in question and answer form, all to be presented in the above case, that the answers in the attached written testimony were given by him; that he has knowledge of the matters set forth in such answers; that such matters are true to the best of his knowledge, information and belief.


Donald E. Johnstone

Subscribed and sworn to before me this 4 day of November, 2008.


Notary Public

[SEAL]

My Commission expires

CAROLYN NEPORADNY
Notary Public - Notary Seal
STATE OF MISSOURI
Commissioned for Camden County
My Commission Expires: August 30, 2009
Commission Number 05452654