Liberty Rate Case

Missouri Public Service Commission

September 8, 2014

Opening Statement of Noranda Aluminum
Case No. GR-2014-0152

Background

- Noranda is a unique customer
- Liberty serves Noranda from its transmission system and does not use its distribution system for Noranda
- Noranda is the largest user of gas in the SEMO district
- Noranda is an interruptible customer
- Noranda takes service via a tap into the transmission system, a tap that Noranda pays for and uses and no other customer pays for or uses
- Noranda is now paying **$.18/Mcf** under a stipulation signed by all parties, and approved by this Commission

Issue for Noranda

- The only issue for Noranda is the rate that Liberty is to charge it
- Liberty and Noranda have executed a contract continuing the **$.18/Mcf** rate for 10 years, <u>subject to Commission approval</u> now and at each subsequent rate case
- <u>That rate is not a "discounted rate"</u>
- In fact, in the last case, this Commission found this rate to be a "just and reasonable" rate
- That rate is either 64% <u>above</u> or 600% <u>above</u> the cost to serve Noranda, depending which cost calculation is used

Staff Position

- Staff seems to argue that Noranda's rate should be $1.44/Mcf plus whatever percentage increase in that rate is ordered in this case
- Staff bases that on its assumption that Noranda should be lumped into the Large Firm General Service class or Interruptible Large Volume Gas Service class (same rate for either class)
- The current rate for those classes is ****800%**** higher than Noranda's currently approved rate and rate agreed to with Liberty going forward
- If Liberty obtains its requested thirty percent increase for the SEMO district, Noranda's rate would increase ****1,000%**** under Staff's approach

Staff Pos'n Con't

- Under that rate, Noranda would be paying at least $1.87 million per year, and likely much more unless Liberty obtains no rate increase
- To put that rate in perspective:
  - At $1.87 million (likely more) per year, Noranda would pay 100% of the annual cost of the tap ($32,000)
  - **In addition, however**
  - Noranda would also pay 100% of the cost of the SEMO transmission system ($1.058 million per year) even though Liberty uses only 10% of that system's capacity to serve Noranda **and**
  - Noranda would also be paying $780,000 of the cost of the distribution system that Liberty does not even use to serve Noranda

Basis of Staff Position

- In spite of the Stipulation to the $.18/Mcf rate in the last rate case, a stipulation signed by Staff and OPC, and approved by the Commission, Staff implies that:
  - Liberty has been undercharging Noranda and
  - Giving Noranda a "<u>discounted</u>" rate
  - And because there was no separate tariff for Noranda, that it should have been lumped into the SEMO Large Firm General Service or Interruptible Large Volume Gas Service tariffs
- But unlike the customers in those classes, <u>Liberty does not use its distribution system to serve Noranda</u>
- And, significantly, the actual cost to serve Noranda is so far below the rates of those classes as to render their application to Noranda as unreasonable and unjust

Evidence

- The <u>only witness</u> to present evidence of the cost to serve Noranda is Maurice Brubaker
- He noted that under no circumstances should any cost of the distribution system be allocated to Noranda since Liberty does not use that system to serve Noranda
- He determined that as an interruptible customer one would not normally allocate any of the cost of the transmission system to Noranda either
  - As an interruptible customer, the actual cost to serve Noranda is **<u>$.03/Mcf</u>**
  - However, even if Noranda were not treated as an interruptible customer, and one also allocated a share of the transmission system cost to Noranda, the cost to serve it is still only **<u>$.11/Mcf</u>**
- Nevertheless, Noranda agreed to a **<u>$.18/Mcf rate</u>**, its current rate, and the rate agreed to by all parties in the last rate case

Annual Cost to Serve Noranda as an Interruptible Customer (Schedule MEB-1)

Liberty Utilities (Midstates Natural Gas) Corp.
d/b/a Liberty Utilities
Case No. GR-2014-0152
SEMO Division
Test Year Ending 9/30/13 with Updates to 3/31/2014

Summary of Cost to Serve Noranda
(Dollars in Thousands)

Line	Description	Liberty ROR (1)	Staff ROR (2)	Average (3)
1	O&M Expenses	$ 12.0	$ 12.0	
2	Depreciation Expense	4.0	4.0	
3	Other Taxes	1.4	1.4	
4	Return & Income Tax	16.0	13.0	
5	Total	$ 33.4	$ 30.4	$ 32

Note:
Cost to serve Noranda is approximately 3¢ per Mcf based on an annual volume of 1,300,000 Mcf.

Annual Additional Cost to Serve Noranda If Not an Interruptible Customer (MEB Workpaper)

LIBERTY UTILITIES
GR-2014-0152

July, 2014

MEB
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Trans Sys
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SEMO DIVISION - Transmission System Revenue Requirement

$(000) Except Where Noted

Staff Accounting Schedules Unless Noted Otherwise

Allocation to Noranda Based on 3-Day Peak Demand

Peak Day	Liberty Mcf/day	Noranda Mcf/day	Noranda's Share
January 5, 2014	38,179	4,184	
January 6, 2014	47,712	3,980	
January 7, 2014	40,979	3,892	
Average	42,290	4,019	9.5%

Transmission COS	$ 1,058	x	9.5%	=	$	101
Noranda's Annual Volume (Mcf)						1,300,000
Noranda's Share if Noranda were a Firm Service Customer						8.0 ¢

Evidence

- While no other party offered the cost to serve Noranda, Staff did criticize one data point that Brubaker used
- As Brubaker explained in his Surrebuttal, that criticism was unfounded because if he altered his calculation based upon that criticism, the calculated cost of service would actually <u>decrease</u>
- As Brubaker's workpapers show, his calculation was based upon the trued up figures used by Staff and Liberty through March 2014
- Brubaker's cost calculation is correct
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Evidence

- The <u>maximum</u> total cost to serve Noranda is thus \$.03/Mcf + \$.08/Mcf = \$.11/Mcf

Relief Requested

- Noranda asks the Commission to approve the $.18/Mcf rate agreed to with Liberty

- It seeks this relief whether or not the Commission approves that rate in a tariff for a class including only Noranda or simply approves the rate by approving the contract as it did in the last few rate cases

- Alternatively, if the Commission sets any other rate for Noranda, it should be a cost-based rate no higher than $.11/Mcf, which is the maximum cost to serve Noranda