

Exhibit No.: 200
Issue: Noranda Impact
Witness: George Swogger
Type of Exhibit: Direct Testimony
Sponsoring Party: Noranda
Case Number: EA-2005-0180
Date Testimony Prepared: Dec. 21, 2004

AmerenUE

Case No. EA-2005-0180

FILED

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Prepared Direct Testimony of

Missouri Public
Service Commission

George Swogger

On behalf of

Noranda Aluminum, Inc.

December 2004

Exhibit No. 200
Case No(s) EA-2005-0180
Date 2-22-05 Rptr KX

BEFORE THE
PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

Application of Union Electric Company)
for a Certificate of Public Convenience and)
Necessity authorizing it to construct, install,)
own, operate, control, manage and maintain)
electric plant to provide electric)
service in New Madrid, County, Missouri, as an)
extension of its existing certificated area)

EA-2005-0180
Case No. CP-2005-

Affidavit of George Swogger

State of Missouri)
County of New Madrid) ss

George Swogger, 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 interest 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.

George Swogger
George Swogger

Subscribed and sworn before me this 14th day of December, 2004

Jane Ann Bennett
Notary Public

[SEAL]



JANE ANN BENNETT
New Madrid County
My Commission Expires
April 27, 2008

My Commission expires: 4-27-08

Before the
Missouri Public Service Commission

AmerenUE

Case No. EA-2005-0180

Prepared Direct Testimony of George Swogger

1 INTRODUCTION

2 Q PLEASE STATE YOUR NAME AND ADDRESS.

3 A George Swogger. My address is 110 Holmes Drive, Sikeston, Missouri 63801.

4 Q BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

5 A I am employed by Noranda Aluminum, Inc. as Manager - Energy Procurement
6 for the aluminum smelter located in the St. Jude Industrial Park near the city
7 of New Madrid, Missouri. I will refer to this facility as the "Smelter."

8 Q PLEASE SUMMARIZE YOUR EDUCATION AND EXPERIENCE.

9 A In 1974 I received a Bachelor of Science degree in industrial engineering from
10 West Virginia University. I worked as an industrial engineer for other aluminum
11 companies from 1974 through 1980.

1 In 1980 I began my employment with Noranda as the Chief Industrial
2 Engineer. In 1984 I was promoted to the position of Administrative Manager.
3 My responsibilities included cost accounting, payroll, and management of the
4 St. Jude Industrial Park. I also assisted corporate staff in the administration of
5 Noranda's power contracts. In 1990 my title remained the same, but my
6 responsibilities changed. My previous responsibilities were replaced with
7 responsibilities including all purchasing, warehousing, and traffic. I also
8 assumed responsibility for administration of Noranda's power contracts. From
9 1980 thru 2002 I was also responsible for industrial engineering for the plant.

10 In 2002 my responsibilities changed to Manager of the Rod Mill and
11 Manager of Energy Procurement. From late 2003 through the present my entire
12 responsibility has been energy procurement. In that role my title is Manager --
13 Energy Procurement.

14 Q WHAT ARE THE PURPOSES OF YOUR TESTIMONY?

15 A There are three. First, I want to support the Union Electric Company d/b/a
16 AmerenUE application to extend its service territory to include the Smelter.
17 Second, I want to explain how service from AmerenUE under the proposed rate
18 meets the requirements of the Smelter. Third, while I am not an attorney and
19 do not intend to offer a legal opinion, I want to explain from my own
20 perspective why the proposal of AmerenUE is in the public interest.

21 With these purposes in mind I hope to obtain approval of the entire
22 package so as to better ensure the continuing viability of the Smelter. By the

1 "entire package" I mean the proposal for the service territory extension, the
2 Large Transmission Service ("LTS") tariff, and all aspects of the terms,
3 conditions and rates under which service is to be provided. Also, AmerenUE is
4 requiring certain conditions be met before it will proceed.

5 Q WILL OTHER NORANDA WITNESSES ALSO APPEAR IN SUPPORT OF THE
6 AMERENUE APPLICATION?

7 A Yes. Mr. Steve McPheeters will also provide testimony. His position is
8 Superintendent of Communication, Training - Development, and Continuous
9 Improvement. Mr. McPheeters is also Chairman of the Southeast Missouri
10 Economic Development Alliance (SMEDA). Mr. McPheeters will describe the
11 importance of the Smelter as a member of the community, including the
12 economic importance of the Smelter to the State of Missouri generally and to
13 the southeastern region of Missouri.

14 Additional witnesses include: Missouri State Representative Lanie Black,
15 Missouri State Representative Terry Swinger, Mayor Mark Baker of the City of
16 New Madrid, who is also Commissioner elect of New Madrid County, Mr. David
17 Seamon, Director of the Division of Business Development and Trade,
18 Department of Economic Development of the State of Missouri, and Mr. Harvey
19 Cooper, Executive Director of the Community Sheltered Workshop. These
20 witnesses will offer testimony related to some of the broad public interests in
21 the continuing viability of the Smelter.

THE SMELTER AND ELECTRICITY REQUIREMENTS

Q PLEASE DESCRIBE THE PRODUCT PRODUCED AT THE NORANDA SMELTER AND THE MARKET INTO WHICH THE PRODUCT IS SOLD.

A The plant produces four products: billet, rod, foundry products and primary ingots. The products are sold into a market that in most respects is a world market. Of course, the Smelter tries to exploit both its abilities to serve niches and its mid-continent location to sell to regional customers within the market. With respect to the State of Missouri, the Smelter is an export industry. This means that revenue from products sold mostly outside of Missouri flows into the State. Again, Mr. McPheeters will address this topic.

Q PLEASE DESCRIBE THE PROCESS USED TO SMELT ALUMINUM.

A The plant receives alumina via barge over the Mississippi river. The alumina is offloaded from the barges and moved to the Smelter by conveyer. There it is processed in one of the three production lines (pot lines) where electricity is used to break the bond between aluminum and oxygen in the alumina. Generally the finished products are shipped via truck and some by rail.

Q OVER THE PERIOD OF A YEAR WHAT WILL BE THE APPROXIMATE QUANTITIES OF ALUMINUM PRODUCED AND ELECTRICITY CONSUMED?

A On an annual basis the plant will produce 250,000 metric tons of aluminum and consume about 4 million MWh (475 MW at 98% load factor). At the effective \$32.50 per MWh price under the proposed LTS tariff the annual amount paid to

1 AmerenUE will be over \$ 130 million. Over the initial 15 year term this
2 amounts to \$2 billion at the initial price under the LTS rate.

3 Q PLEASE DESCRIBE SOME OF THE IMPORTANT CHARACTERISTICS OF THE
4 ELECTRICITY REQUIREMENTS OF THE SMELTER.

5 A First and foremost the supply must be reliable. The smelting process is
6 continuous and cannot be cycled on and off. Any interruption of the supply
7 beyond an hour is very serious and would be likely to cause extensive damage
8 to the process and create a major capital expense to repair and rebuild. I
9 cannot predict with any certainty the future economic and operational impact
10 should a major interruption occur in spite of our efforts to secure a reliable
11 supply of power, but I know the consequences could be so severe as to result in
12 a permanent closure of the plant. Consequently, our confidence in
13 AmerenUE's ability to provide reliable service was extremely important to our
14 decision to buy electricity from AmerenUE.

15 Equally important is the impact of the cost of electricity on the
16 economic viability of the plant. Electricity costs are important because
17 electricity will represent approximately 1/3 of the Smelter's operating cost and
18 will be the single largest operating cost. The Smelter's ability to remain viable
19 depends on maintaining our ability to deliver a competitively priced product.
20 Electricity has a large part to play in that. Of course, the prevailing market
21 prices we receive for the products we produce and other costs are all also
22 important considerations. Although the Smelter is large, we are not a market

1 maker so we must accept the market prices. Therefore, it is critical that all
2 costs, and electricity in particular as our largest cost, remain economical and
3 under control to the extent possible.

4 THE CHOICE OF AMERENUE

5 Q WHY HAVE YOU CHOSEN AMERENUE AS YOUR SUPPLIER?

6 A In the simplest of terms, Noranda has chosen AmerenUE because it offers
7 reliable service from a supplier with relatively low cost production and a
8 vested interest in the State of Missouri. Furthermore, the service is offered at
9 a reasonable price that should remain relatively stable over many years.

10 Service under a regulated rate can be a plus. It ensures some oversight
11 of AmerenUE and I expect that Noranda will receive fair treatment in future
12 rate proceedings with rates that reflect the cost of the service provided to
13 Noranda.

14 Both AmerenUE and the Associated Electric Cooperative, Inc. (AECI) have
15 told me without reservation that the transmission facilities and
16 interconnections between the two companies enable the provision of reliable
17 service. I am not aware of any potential transmission constraints that would be
18 a problem for Noranda, AmerenUE, or AECI.

19 AmerenUE currently serves a large portion of Missouri with generation
20 assets that it owns. As I have considered alternatives, ownership of generation
21 assets has been an important consideration in the choice of a supplier because I

1 believe that a physical presence and a commitment to the area will contribute
2 to reliable service.

3 Another consideration is AmerenUE's generation mix. AmerenUE has
4 ample base load resources that I expect to provide economical service both
5 now and over the long run. AmerenUE is providing studies in this proceeding
6 that document the availability of base load resources in sufficient quantity to
7 serve the Smelter as a part of the native load of the system.

8 Further, Noranda's goal was to find a power supply with the price based
9 on the cost of the service provided. Consequently, while I considered all
10 possibilities, I did not continue to pursue market based possibilities for reasons
11 such as, higher prices, unpredictable long-term prices, volatility in price, and,
12 in most cases, an undefined source of supply. The regulated service offered by
13 AmerenUE substantially meets the goal of a cost based supply.

14 **Q DO YOU EXPECT THE SMELTER TO BE A LONG TERM CUSTOMER OF**
15 **AMERENUE?**

16 **A** Yes. We have entered into a contract with a 15 year initial term that will
17 automatically renew for additional terms of 1 year on a continuing basis.

18 **Q PLEASE DESCRIBE ANY CONCERNS YOU MAY HAVE WITH A REGULATED**
19 **SERVICE.**

20 **A** A downside concern is the possibility of a future rate decision that would
21 increase the cost to the Smelter in a manner that was not related to the cost of

1 providing the service. While this risk remains troublesome, the Smelter is
2 depending on decisions that will not discriminate against Noranda.

3 **PUBLIC INTEREST CONSIDERATIONS**

4 Q WHAT ARE THE PUBLIC INTEREST CONSIDERATIONS IN AMERENUE'S
5 APPLICATION FOR A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY?

6 A First, the Smelter resides in Missouri and is a part of the public in the State. I
7 believe there is a positive public interest in the service simply because of this
8 fact.

9 Also, to state the obvious, the Smelter will be making a large purchase
10 from another Missouri company, AmerenUE. During the course of hearings and
11 discussions related to SB 555 last year, numerous legislators expressed a desire
12 for the Smelter to explore service from a Missouri supplier. I have done so
13 conscientiously and AmerenUE has emerged as the best choice among all
14 suppliers, regardless of location.

15 On another level, the Smelter makes many contributions to the public
16 interest in both economic and social terms. Those contributions include jobs,
17 payroll, purchases from local suppliers, taxes, and leadership contributions to
18 the communities surrounding the Smelter. The other Noranda witnesses will
19 further address these considerations in their testimonies.

1 ELECTRIC SUPPLY HISTORY

2 Q PLEASE PROVIDE AN OVERVIEW OF YOUR ELECTRICITY SUPPLY
3 ARRANGEMENTS FROM THE EARLY DAYS OF THE SMELTER THROUGH THE
4 PRESENT.

5 A For many years the Smelter purchased electricity under contracts with the City
6 of New Madrid and AECl. The first contracts were developed in the 1960's and
7 additional contracts or contract modifications were developed to service
8 expansions of the plant. The contracts provided electricity supplies based on
9 the cost of producing the electricity. Portions of the supplies came from the
10 coal-fired New Madrid plant owned in part by the City of New Madrid and
11 operated by AECl. Other portions were provided by AECl. These contracts
12 ended simultaneously on May 31, 2003.

13 In the late 1990s a contract for the period 2003 through 2010 was
14 developed between the Smelter and AECl. The pricing was based on an index
15 tied to natural gas prices and to coal prices. As 2003 approached, it became
16 clear that the price would be a burden for the Smelter and the contract was
17 terminated consistent with its terms. The Smelter again searched for a reliable
18 and economical supply of electricity. Also, I was informed that attorneys
19 advising AECl had reached the conclusion that selling electricity directly to the
20 Smelter was not permissible under Missouri law. Consequently, it appeared
21 that the only then-legal supplier was the City of New Madrid.

1 As I worked to develop a replacement contract I was aware that the City
2 of New Madrid simply did not have the quantities of power the Smelter would
3 need. This was because the City's current rights to power from the local coal
4 fired plant ended May 31, 2003 with the termination of the 1968 contract for
5 supply to the Smelter. The remainder of the supply had been coming from
6 AECI and it planned to use its resources for its native load customers.

7 I also found that many suppliers would only quote so called market
8 prices or prices based on gas-fired generation. In contrast I sought a fixed price
9 or a cost-based price for base load production.

10 For the two year period beginning June 1, 2003 and continuing through
11 May 31, 2005 electricity is being supplied by an affiliate of Noranda, Brascan
12 Energy Marketing, Inc. (BEMI). BEMI has no interest in continuing service
13 beyond the contract period and will entertain early termination.

14 **Q WHY DID NORANDA SEEK LEGISLATION IN 2002 (CONTINUING INTO THE**
15 **SPRING OF 2003)?**

16 **A**Many suppliers were reluctant to deal with a retail customer such as Noranda
17 because of the uncertain standing of the Smelter under Missouri law. Simply
18 stated, the legislation was needed to clarify the right of Noranda to negotiate
19 for electricity supplies in more or less the same manner as had been followed
20 historically.

21 In order to provide a proper structure I was advised that the City of New
22 Madrid would need to be the retail supplier of the Smelter. Since the City does

1 not operate a utility equipped to deal with the power needs of the Smelter we
2 were left in the uncomfortable position of asking the City to participate when
3 there was otherwise no need for its involvement. Of course, it was also
4 important to minimize any financial risk to the City because the power contract
5 dollar amount is large in comparison to the financial resources of the City. On
6 the other hand, once the liabilities of the City were minimized the City had
7 virtually no stake in the contract. For that reason I understand the transaction
8 may have been subject to a disruptive challenge at some later point in time.
9 All in all it was not an acceptable situation.

10 I am not a lawyer and I cannot address the legal issues. From a business
11 perspective I understood that it made no sense for the City to be involved.
12 Noranda needed a straightforward legal basis to transact for power so suppliers
13 and the Smelter would not face legal challenges to otherwise enforceable
14 power supply contracts. Fortunately SB 555 was passed and signed into law to
15 resolve the problem. I am not an attorney, but as a practical matter I believe
16 the change in law is part of what has made it possible for Noranda to become a
17 customer in the service territory of AmerenUE.

18 THE METRO EAST TRANSFER

19 Q WHAT IS THE RELATIONSHIP OF YOUR TRANSACTION TO MPSC CASE NO. EO-
20 2004-0108?

21 A Case No. 2004-0108 has been characterized as the "Metro East Transfer."

22 About one year ago talks began in earnest between AmerenUE and the Smelter.

1 We were advised that approval of the Metro East Transfer would need to occur
2 before AmerenUE would be willing to serve the Smelter. The best information
3 we could obtain at the time was that the approval would be accomplished last
4 summer, although the date was understandably uncertain. By last summer it
5 was imperative to move forward with the details of the negotiations.

6 AmerenUE agreed to do so, but with the continuing contingency of the
7 completion of the Metro East Transfer prior to any service to the Smelter.

8 When talks began about one year ago I did not anticipate that the
9 Smelter agreement and the Metro East Transfer would both be before the
10 Commission at this time. My interest is only in a satisfactory resolution of the
11 Metro East Transfer matter so that the transaction between AmerenUE and the
12 Smelter can proceed on its own merits, as intended.

13 Q DOES THIS COMPLETE YOUR TESTIMONY?

14 A Yes it does.