

Exhibit No.:	
Issue:	Rate LTS
Witness:	Donald Johnstone
Type of Exhibit:	Surrebuttal Testimony
Sponsoring Party:	Noranda
Case Number:	EA-2005-0180
Date Testimony Prepared:	February 14, 2005

AmerenUE

Case No. EA-2005-0180

Prepared Surrebuttal Testimony of

Donald Johnstone

On behalf of

Noranda Aluminum, Inc.

February 2005



BEFORE THE
PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI


In the Matter of the 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, as Defined in Section 386.020(14),)
RSMo, to Provide Electric Service in a Portion of)
New Madrid County, Missouri, as an Extension)
of Its Existing Certificated Area.)

Case No. EA-2005-0180

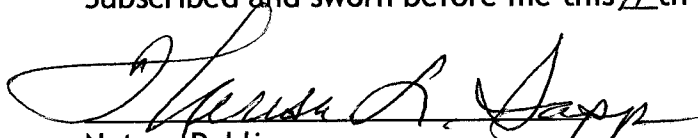
Affidavit of Donald Johnstone

State of Missouri)
County of Camden) ss

Donald 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 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.


Donald Johnstone

Subscribed and sworn before me this 11th day of February, 2004


Notary Public

[SEAL]

My Commission expires: _____



THERESA L. SAPP
Camden County
My Commission Expires
May 3, 2006

Before the
Missouri Public Service Commission

AmerenUE

Case No. EA-2005-0180

Prepared Surrebuttal Testimony of Donald Johnstone

1 **Q PLEASE STATE YOUR NAME AND ADDRESS.**

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

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

5 A I am employed as President of Competitive Energy Dynamics, L. L. C.

6 **Q PLEASE DESCRIBE YOUR QUALIFICATIONS AND EXPERIENCE.**

7 A My qualifications and experience are set forth in Appendix A.

8 **Q WHAT ARE THE PURPOSES OF YOUR TESTIMONY?**

9 A I have been asked to review the rebuttal testimonies of several parties from my
10 perspective as a rate expert. In particular, I have been asked to comment on
11 whether or not suggested alternatives to the proposed rate LTS are
12 appropriate.

Competitive Energy
DYNAMICS

1 Q WERE YOU A PARTICIPANT IN THE NEGOTIATIONS THAT LED TO THE
2 PROPOSAL OF RATE LTS?

3 A Yes. My role was to advise Mr. Swogger in the negotiations.

4 Q DO YOU OPPOSE THE SUGGESTED ALTERNATIVES TO RATE LTS?

5 A Yes. Instead I support the approval of Rate LTS for service to Noranda. It is
6 superior to the suggestions of Mr. Watkins on behalf of the Staff of the
7 Commission and of Mr. Kind on behalf of the Office of Public Counsel.

8 Q HAVE YOU REVIEWED MR. SWOGGER'S SURREBUTTAL TESTIMONY REGARDING
9 RATE LTS?

10 A Yes. Mr. Swogger approaches rate LTS from the perspective of a business
11 person. The reasoning is also consistent with rate theory. Mr. Swogger makes
12 essentially two points in support of rate LTS as separate and distinct from rate
13 LPS.

14 The first point is that Noranda is very large and has a very high load
15 factor. Size is often used as a distinction among rates. For example,
16 AmerenUE has divided its large primary service customers into two rate classes,
17 Small Primary Service and Large Primary Service. Another example is general
18 service where again there are separate rates for Large General Service as
19 opposed to Small General Service. Size is often a consideration in determining
20 rate classes.

1 The second point is that Noranda will not receive distribution service
2 from AmerenUE. It is common to distinguish among rates based on the type of
3 distribution service that is provided. A good example is the difference
4 between secondary distribution service and primary distribution service. As a
5 general rule service to customers that receive secondary distribution service is
6 provided over both the primary distribution system and the secondary
7 distribution system. In contrast, primary service customers do not receive
8 service from the secondary distribution system. Consequently, there are
9 typically different rates for customers that receive secondary service -- and
10 those that receive primary service. In the case of Noranda, AmerenUE will
11 provide neither secondary nor primary distribution service.

12 While Mr. Swogger discusses these considerations from a business
13 perspective, my conclusion is the same as his. The usage and service
14 characteristics of Noranda, all things considered, support the establishment of
15 a separate class of service for which Noranda would qualify.

16 **Q OFFICE OF PUBLIC COUNSEL WITNESS RYAN KIND SUGGESTS THAT SERVICE**
17 **TO NORANDA SHOULD BE UNDER A SPECIAL CONTRACT RATHER THAN UNDER**
18 **THE LTS RATE SCHEDULE. DO YOU AGREE?**

19 **A No. Whether the service is provided in the form of a rate schedule or in the**
20 **form of a special contract, the same regulatory principles apply. In other**
21 **words, his call for a “special contract” instead of a rate schedule elevates form**

1 over substance. In this situation with the proposal for cost based rates I see no
2 benefit to the special contract approach.

3 **Q DOES MR. KIND DISAGREE WITH THE SUBSTANCE OF RATE LTS?**

4 **A** Yes. One of the fundamental differences is with the manner in which Mr. Kind
5 expects future prices to be set. (He does not disagree with the initial price of
6 \$32.50 per MWh.) Instead of a cost-based approach he suggests a price equal
7 to the allocated cost plus a charge for profits on off system sales that do not
8 occur.

9 While the allocated cost cannot be determined at this time, AmerenUE
10 will be submitting a class cost-of-service study next year. At such time as
11 there is a case to change rates before the Commission, I expect that study to
12 be an important part of setting the rates for all customer classes, including
13 rate LTS. To the extent that this is Mr. Kind's intent, I have no disagreement.
14 However, there are other differences.

15 The profit from off system sales is a part of the analysis in any class
16 cost-of-service study. Mr. Kind proposes an extraordinarily different approach
17 solely for Noranda. Mr. Kind would go far beyond any concept of known and
18 measurable costs as ordinarily used in ratemaking and directly assign to
19 Noranda some amount of cost (lost profit) for some amount (an unstated
20 quantity) of off system sales that never occurred. The discrimination in this
21 extraordinary approach is apparent. One customer would be treated

1 differently with a rate based on costs that were never incurred by Ameren.

2 Moreover, there seems to be an implicit assumption by Mr. Kind that it is
3 preferable to sell power in the more speculative off system power market, for
4 the benefit of off system customers, most of which are out of state customers,
5 rather than to a native load Missouri customer. That is not consistent with the
6 public service purposes of a utility. A new customer ought not to have to
7 guarantee to other customers a level of profitability from off system
8 opportunity sales that were never a part of the public service obligation of the
9 utility, rather a new customer should receive a rate based on the cost of the
10 energy that is consumed and other obligations consistent with the service
11 provided.

12 As a defense for his approach, Mr. Kind suggests that it is necessary in
13 order to protect AmerenUE ratepayers. In my opinion it would be more
14 accurate to state that under Mr. Kind's approach, instead of equitable cost
15 sharing, there would be a guarantee of benefits for other ratepayers at the
16 expense of Noranda. It is worth noting that the guarantee itself is based only
17 on speculative off system sales, which in his approach are intended to be the
18 speculative off system sales that did not occur.

19 **Q DO YOU HAVE ANY COMMENT ON THE KCPL SPECIAL CONTRACT TARIFF THAT**
20 **IS DISCUSSED BY MR. KIND?**

21 **A Yes. Mr. Kind cites it as an example, but goes on to explain that the following**

1 of its provisions are inappropriate for the Noranda Special Contract that he
2 contemplates:

3 Availability,
4 Pricing
5 Term of contract and termination,
6 Administrative and facilities charges, and
7 Contract documentation.

8 After eliminating these items, there is not much substance left in his
9 example that is useful. But another of the considerations he discusses is that
10 the KCPL Special Contract tariff was designed to allow KCPL to sell at prices
11 *below* the otherwise applicable cost based rates. For all of the reasons he
12 identifies plus this *below cost* purpose, the KCPL Special Contract tariff is not
13 on point and does not amount to a reasonable approach for service to Noranda.

14 Q DOES THIS CONCLUDE YOUR TESTIMONY?

15 A Yes it does.

Appendix A

Qualifications of Donald E. Johnstone

1 **Q PLEASE STATE YOUR NAME AND ADDRESS.**

2 A Donald E. Johnstone. My address is 384 Black Hawk Drive, Lake Ozark, MO
3 65049.

4 **Q PLEASE STATE YOUR OCCUPATION.**

5 A I am President of Competitive Energy Dynamics, L. L. C. and a consultant in the
6 field of public utility regulation.

7 **Q PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**

8 A In 1968, I received a Bachelor of Science Degree in Electrical Engineering from
9 the University of Missouri at Rolla. After graduation, I worked in the customer
10 engineering division of a computer manufacturer. From 1969 to 1973, I was an
11 officer in the Air Force, where most of my work was related to the Aircraft
12 Structural Integrity Program in the areas of data processing, data base design
13 and economic cost analysis. Also in 1973, I received a Master of Business
14 Administration Degree from Oklahoma City University.

15 From 1973 through 1981, I was employed by a large Midwestern utility
16 and worked in the Power Operations and Corporate Planning Functions. While
17 in the Power Operations Function, I had assignments relating to the peak
18 demand and net output forecasts and load behavior studies which included such

1 factors as weather, conservation and seasonality. I also analyzed the cost of
2 replacement energy associated with forced outages of generation facilities. In
3 the Corporate Planning Function, my assignments included developmental work
4 on a generation expansion planning program and work on the peak demand and
5 sales forecasts. From 1977 through 1981, I was Supervisor of the Load
6 Forecasting Group where my responsibilities included the Company's sales and
7 peak demand forecasts and the weather normalization of sales.

8 In 1981, I began consulting, and in 2000, I created the firm Competitive
9 Energy Dynamics, L.L.C. As a part of my twenty-four years of consulting
10 practice, I have participated in the analysis of various electric, gas, water, and
11 sewer utility matters, including the analysis and preparation of cost-of-service
12 studies and rate analyses. In addition to general rate cases, I have participated
13 in electric fuel and gas cost reviews and planning proceedings, policy
14 proceedings, market price surveys, generation capacity evaluations, and
15 assorted matters related to the restructuring of the electric and gas industries.
16 I have also assisted companies in the negotiation of power contracts
17 representing over \$1 billion of electricity.

18 I have testified before the state regulatory commissions of Delaware,
19 Hawaii, Illinois, Iowa, Kansas, Massachusetts, Missouri, Montana, New
20 Hampshire, Ohio, Pennsylvania, Tennessee, Virginia and West Virginia, and the
21 Rate Commission of the Metropolitan St. Louis Sewer District.