BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION
STATE OF MISSOURI

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

STATEMENT OF POSITION ON SELECTED ISSUES
BY NORANDA ALUMINUM, INC.

COMES NOW Intervenor Noranda Aluminum Inc. (Noranda) and in response to Commission orders regarding the submission of statements of position on issues states the following:

On all issues save those identified below, Noranda respectfully reserves its position and will indicate its position based on the evidence in the record.

A. Fuel Adjustment Clause.

The proposal for an FAC raises myriad legal, policy, and technical rate design questions. Noranda participated fully in the policy debates before the Commission beginning with the rulemaking workshops, continuing in the last case, and now in the instant proceeding.

Regarding the need for a FAC, assuming that the conditions of risk management are equitable, that appropriate incentives are incorporated, that reduced debt and equity costs are fully recognized to reduce the rate increase, that all applicable legal requirements are satisfied, and that all other provisions of the FAC are reasonable, Noranda would support a FAC for implementation at this time.

As noted, appropriate incentives are important. Mr. Johnstone presented the Commission’s FAC rulemaking workshops with the concept of Incentive by Design. After some lively discussions and thoughtful presentations addressing all sides of the incentive by design concept the Commission adopted a rule that preserved Incentive by Design for debate and possible implementation under the circumstances of each utility. To date, both FACs approved by the Commission incorporate the Incentive by Design feature.

Incentive by Design is a simple but effective approach to share risks and maintain incentives to low cost. To the extent such incentives are maintained, there is an alignment of interests between the utility and its 1.2 million customers. The essence of incentive by design is straightforward. A portion of the variation in net fuel costs is tracked for future recovery under the FAC and the remainder continues under traditional ratemaking, whereby an important measure of the traditional incentives to efficiency and low cost are maintained. Hence, "Incentive by Design." There are no complex formulae. Noranda has consistently advocated Incentive by Design from a policy perspective based on the preservation of incentives, an alignment of investor and ratepayer interests, and equitable risk sharing. In presentations before the Commission, others, including

AmerenUE, have characterized the concept as "skin in the game." Whatever the name, any amount of fuel cost tracking will improve the situation for AmerenUE investors while any amount not tracked will engender a level of incentive. OPC, if there is a FAC over its opposition, proposes that 50% of net fuel costs should continue to be recovered in base rates. The middle ground of 50/50 offers apparent equity between competing interests. The State of Missouri, if there is an FAC over its opposition, and MIEC have 80% proposals (MIEC with a complicating cap). AmerenUE proposed 95% with no caps. Noranda appreciates straightforward, but cannot support 95% under AmerenUE circumstances. Surely there are material differences between AmerenUE on the one hand, and Aquila and Empire on the other that would allow, and logically require, a different tracking percentage. Noranda supports Incentive by Design in which base rate treatment of net fuel cost is maintained for more than 5% of the costs.

Risk management is also a concern that should be addressed. Even in the limited context of the FAC this topic has broad implications. AmerenUE has managed its fuel costs with a number of different approaches. Among those approaches are hedging, forward contracts, and insurance for the cost of replacement power should a low cost facility experience an extended outage. Absent a meaningful incentive by design approach to maintain the deep and abiding interest in financial results, the financial incentive for AmerenUE mange fuel cost risk is greatly reduced because the risk, from an investor perspective, would have been managed. As AmerenUE witnesses with investment banking experience explain, investors want the fuel price risk managed. The AmerenUE FAC proposal offers ratepayers up as the counterparty. It is up to the Commission to limit and equitably balance the counterparty risk visited upon ratepayers under any FAC that may be considered.

In the proceeding, much attention is devoted to increasing fuel cost, volatility in delivered fuel prices, and pricing in the off-system sales market that is so important to AmerenUE. There is another fuel cost risk that is given less attention, but that remains important. There is a continuing risk of a spike in net fuel costs if there is a major and extended outage at one of AmerenUE's base load plants that provide energy at a favorably low variable cost. This is a real risk as evidenced even by the Taum Sauk peaking plant failure. While that failure has achieved some notoriety, a major outage at a coal-fired plant would also loom large financially. Indeed, it is largely the coal-fired generation that would have been used to pump water to the upper Taum Sauk reservoir for release to generation during periods of need and to offset higher operating costs. The point is that generating plant outages can and do have a major impact on net fuel costs. It is not just fuel prices, but also plant operations that are under AmerenUE's management and control that have a great impact on the net fuel costs. However, the fuel rider operates on net fuel costs, not on fuel prices. As a consequence a provision is needed to manage the replacement power cost risk on behalf of ratepayers.

Noranda addressed the replacement power cost risk in direct testimony. While AmerenUE has opposed, the state of Missouri has taken up the issue and offered a remedy. The State of Missouri (again, assuming an FAC is implemented over its opposition) proposes an operating threshold for generation facilities based on average output for recent years, adjusted to reflect scheduled outages. Noranda identified alternative remedies that would similarly protect ratepayer from this cost risk. Any FAC for AmerenUE must have a provision to equitably mange the replacement power cost risk.

Staff (assuming a FAC is implemented over it opposition) proposes seven changes to the AmerenUE FAC proposal. Noranda opposes the Staff proposal to move from 4 month recovery periods to 6 month periods. In the alternative AmerenUE proposes to align the accumulation periods so that two will occur at the time of the seasonal rate changes. Noranda does not agree with the perceived need to align the seasonal and FAC rate changes and reserves its right to assert further positions based on the record.

AmerenUE in response to the Staff proposal for six month accumulation periods proposes for the first time in its surrebuttal to reduce the recovery periods to six months. Noranda strongly opposes any reduction in the recovery periods to less than 12 months.

B. Rate Design - Class Cost of Service.

Noranda continues to consistently support the cost of service as the appropriate basis for rates. However, several parties have rate recommendations that are cut from a different cloth than their costs studies. First things first, Noranda herein addresses the class cost-of-service study methods before moving to the recommendations for the spread of the increase.

1. Class cost-of-service study

While there are a number of parties that have submitted class cost-of-service studies, the study prepared by AmerenUE provides a sound approach that also represents a reasonable middle ground among the studies presented. Studies submitted by the Staff of the Commission and OPC, if adopted, would inappropriately burden a high load factor customer like Noranda with above average capacity costs, while limiting the equity of allocating average demand-related and average energy-related production costs to the variable/energy portion of the costs. Indeed the thesis of the studies is that high load factor customers should pay more because they use more. The thesis is wrong. The impact on Noranda, with its highly efficient around the clock usage and the resulting 98% load factor can only be characterized as punitive. On the other hand, MIEC studies, while certainly offering a defensible result that is beneficial for Noranda, swing the pendulum in the other direction. Noranda came to AmerenUE based on an expectation of fair treatment before the Commission that rests on the equity of cost-based rates. There is no attempt by Noranda to pursue an extreme position. Indeed, a sustainable future for Noranda depends on reasonable rates and Noranda will relentlessly support the reasonableness of the middle ground represented by the AmerenUE study.

2. Spread of the Increase.

The recommendations for the spread of the increase diverge significantly from the results of several of the more extreme class cost-of-service studies. Staff, OPC, and AmerenUE all propose an across the board spread. Without question, Noranda appreciates the moderation of the Staff and OPC spread recommendations. It is only with hesitation and a resolve fortified by a world aluminum market that has tumbled right along with other U.S. and world markets that Noranda will and must continue to relentlessly pursue a rate set at the eminently reasonable cost-based level defined by the AmerenUE class cost-of-service study. While the moderated proposals are understood and appreciated, they nevertheless would extract revenues from Noranda that exceed the reasonable cost of service provided. The Smelter is working relentlessly to establish a sustainable future for the short term and the longer term. A cost-based rate for its single largest expense is essential.

When the rate to Noranda is set at cost, the increase will be 5.8% instead of the 12.1% proposed by AmerenUE, assuming, of course, that the full increase requested by AmerenUE were to be granted. Instead of the $15.5 million increase proposed by AmerenUE to Noranda, the increase would be $7.4 million. To be sure, even a $7.4 million increase remains a heavy burden. To the extent that the total AmerenUE increase is reduced from the $251 million requested, the Noranda increase should be reduced proportionately. For example, if the increase is $125.5 million instead of $251 million, in Noranda increase should be adjusted proportionately to $3.7 million.

Noranda has been silent as to the spread of the increase for other customer classes. Noranda's silence is not out of indifference, but out of respect as the other parties present their proposals. Noranda supports cost-based adjustments according to the AmerenUE study as defensible, although Noranda will not argue against any proposal that respects the cost-based rate for Noranda according to the AmerenUE study.

WHEREFORE, Noranda prays that its statement of position on selected issues be received and considered in this matter.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have this day served the foregoing pleading by electronic means or by U.S. mail, postage prepaid, addressed to all parties by their attorneys of record as disclosed by the pleadings and orders herein.

Stuart W. Conrad

Dated: November 13, 2008